Between Yaks and Yurts

Perspectives for a Sustainable Regional Economic Development in Mongolia

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SLE Centre for Advanced Training in Rural Development
Foreword

This report is the result of a five-month project carried out by a consultant team from the Centre for Advanced Training in Rural Development (SLE in its German abbreviation), Humboldt University Berlin, who stayed three months in the area under survey. The study was commissioned by the German Agency for Technical Co-operation (GTZ). The SLE consultant team was composed of an agricultural economist (team leader), a social geographer, an economist, a biologist and journalist, and an architect (engineering graduate).

Interdisciplinary consultancy projects are an integral part of the SLE training programme, the aim of which is to prepare young professionals for assignments in bilateral and multilateral development organizations. It enables participants to obtain valuable practice in the use of action- and decision-oriented research methods. At the same time, projects contribute to identifying and solving problems in rural development.

In 2003, the five groups from the 41st course of the SLE simultaneously conducted projects in Mongolia, South Africa (2), Cameroon and South Caucasus.

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Summary

After more than ten years of transition and despite considerable progress towards democracy and a market economy, Mongolia still faces enormous challenges in its attempt to raise income and create employment, particularly for those living in the rural areas. The German Government made the decision to support Mongolia’s endeavours to strengthen regional economies, in accordance with their specific and to some extent unique potential and natural resources. The creation of a business-friendly environment for small and medium economic entities (i.e., a range of enterprises with various legal forms), start-ups, and investors lies at the centre of the joint strategy “Economic Reform and Build-up of Market Economy” (WiRAM). To implement this strategy, the Mongolian and German sides have agreed to launch a new programme entitled “Promotion of the Regional Economy” (see chapter A1). The programme will cover two regions in the Western and Central zone, the sub-regions of which will serve as programme pilot regions during the initial four-year phase, commencing in autumn 2004:

- Zavkhan aimag (82,400 km², 87,500 inhabitants) is located about 1,000 km west of the capital Ulaanbaatar and characterized by a low population density combined with a minor degree of urbanization (the largest settlement, the aimag centre Uliastay, has 16,000 inhabitants), a strong dominance of nomadic animal husbandry, and an infrastructure that is both technically and socially weak.

- The Darkhan-Uul and Selenge aimags (together 45,300 km², 187,500 inhabitants) are located 250 km north of Ulaanbaatar. The region has a diversified economy and benefits from a reasonable transport infrastructure and energy supply, as well as from a number of educational and vocational training institutions in the regional centre Darkhan, which is the second largest city in Mongolia (70,000 inhabitants).

The SLE team analysed both regions with regard to starting points, prospects, and constraints for entrepreneurial activities and the extension of value chains, relevant private and public
institutions for the promotion of regional economies, and the legal and institutional framework for participation of the local population in regional economic development (RED). The methodological approach and survey design followed the “Local and Regional Economic Development” concept of the German Agency for Technical Co-operation (GTZ) / the Federal Ministry of Economic Co-operation and Development (BMZ) and the principles of participatory diagnostic, i.e., Rapid Rural Appraisal (RRA) and Participatory Appraisal of Competitive Advantage (PACA®) (see chapter A2). The results of the study are based on interviews and workshops with local stakeholders, supplemented by various secondary sources.

Although the Mongolian Government has gained substantial achievements in promoting economic growth (e.g., price stabilization, open trade regime, privatization, infrastructure development programmes), a number of unfavourable framework conditions still constitute a challenge to the economic development of the two pilot regions (see chapter A3):

- Poverty - reflected, e.g. in the low purchasing power of the rural population - is widespread. Bearing in mind the large unemployment (including underemployment, e.g., in herder households), economic development in the regions must first and foremost be labour-based and generate income and employment for young people in particular.

- An extremely low population density, especially in the Western Region, means that regional markets are small and saturated quickly. At the same time, certain economic policies of Mongolia’s two large neighbours (Russia: import taxes and bans; China: subsidies for domestic investments and production) limit the scope for exports. The challenge for producers in regions such as Zavkhan is, therefore, to gain a market share in supra-regional markets (other aimag centres, Ulaanbaatar), to find niches in less competitive markets (e.g., products that cannot easily be copied by Chinese enterprises), and to establish connections with Asian, European and North American markets.
The harsh continental climate makes agriculture (crop, vegetable, and animal production and processing) a seasonal business involving risks. Economic entities require risk-minimizing, income-stabilizing strategies, such as diversification of production, irrigation, greenhouses, breeding for resistance, storage, appropriate herd compositions, stabling in winter, etc.

Mongolia’s ecosystems are not only unique but also very fragile, which means that vital natural resources (especially pastures and forests), if not managed properly, are easily over-utilized and depleted. Finding a balance between economic utilization and ecological protection is a particularly challenging task for RED in both pilot regions.

Poor transport and communication infrastructures and the inadequate and unreliable supply of energy, especially in the Western Region, implies that transport and transaction costs are high, and only limited scope available for energy-intensive production and processing. In promoting the regional economy, therefore, it is essential to increase the value of transported goods, to support investment in the improvement of roads and communication systems (e.g., Internet facilities), and to find intelligent methods of substituting and producing electricity.

In the course of transition, the supply of social services like schooling to people in the rural areas declined dramatically, both in quantity and quality, and has led to significant migration to the urban centres of the Central Region. Strengthening these ‘soft’ locational factors relevant to individuals will be a particular challenge to RED.

The majority of the economic entities under review suffer from low competitive and bargaining power and low income stability (see chapter B1). Their capacity for efficiency and success in increasingly competitive and dynamic markets is constrained by:

- high vertical integration of production, i.e., little outsourcing of certain stages in the value chain, mainly due to unreliable suppliers or their complete absence;
• highly diversified production, i.e., very little specialization on ‘core’ businesses, mainly due to external risks (e.g., climatic conditions);

• low product variation (e.g., production of a single natural yoghurt instead of a variety of fruit yoghurts) due to lack of market information combined with general risk aversion;

• low processing depth, particularly of animal products in Zavkhan, and, despite good quality of raw materials, low standard of processed goods (e.g., perishability), mainly due to lack of information on appropriate processing technologies and quality standards and insufficient investment capital;

• poor product design (containers, labels, etc.), largely due to a lack of marketing know-how and of suppliers;

• insufficient technical and managerial know-how due to inadequate education during the socialist era and the current scarcity of educational and vocational training opportunities, especially in Zavkhan.

Most economic entities do not have fixed buyer contracts and - as in the case of herders - depend on unreliable domestic and foreign middlemen and their price calculations. The resultant planning insecurity and income instability is aggravated by seasonal constraints on production. Bargaining power is also low as a result of bad organization (e.g., in co-operatives, associations, chambers) and poor networking among the various interest groups.

In both regions, core products such as raw and processed meat, hides, milk, and vegetables could satisfy local and national demand and substitute for imports, provided that these products - sausages, leather, cheese, vegetable salads, etc. - match foreign products in quality (e.g., taste) and price. There is also an unmet demand for a variety of services such as repairs, transport, sewing, etc.

The unique characteristics of Zavkhan aimag to be marketed in the long-term include:
• first-class export quality wool and cashmere for primary processing in the region and final processing in Ulaanbaatar or abroad, provided that pasture management and herd composition is optimized and quality is sustained by improved veterinary services, fodder production, and possibly breeding for quality;

• an extraordinarily beautiful landscape that could attract national and foreign tourists, provided the quality of current facilities and services and co-operation with tour agencies and other aimag is improved;

• wild fruits and plants for the production of berry jams and pharmaceutical products to serve national and international markets, provided these non-timber forest products are carefully exploited and reforestation measures take place;

• certain niche products, such as marmot oil and fur, red garlic, and yak and camel milk, for supra-regional and international markets.

The outstanding economic potential of Darkhan-Uul and Selenge aimag includes:

• production and processing of cereals and vegetables to serve regional and national markets and to substitute for imports, provided quality seeds are made available and cultivation risks are minimized through appropriate irrigation and greenhouse technologies combined with diversification of crops;

• availability of a variety of raw materials for construction (cement, lime, clay, etc.) and a processing industry in Darkhan to serve a booming market both inside and outside the region;

• certain niche products such as honey or wild plant products for national markets as well as for export.

A supportive institutional business environment is slowly evolving in the pilot regions. Most of the public and private service providers, however, are still in an early phase of development, defining missions, shaping profiles, and improving customer-orientation (see chapter B2):
At present, non-financial business development services (BDS) such as training, counselling, contact brokering, and lobbying are provided by membership organizations (chambers, employers’ federations, co-operative associations) and certain public administration departments (e.g., employment office), while private consultancy firms have not yet entered the service market. The BDS providers under review are largely committed to increasing the competitiveness of economic entities but have difficulty in attracting new members and are not yet capable of satisfying client needs completely, especially in relation to advice on technology, management, and marketing. This is mainly due to insufficient qualification of personnel, lack of technical equipment (e.g., computers) and limited financial means (e.g., for advertising).

Institutional finance in the two pilot regions comprises banks, non-bank finance institutions (NBFIs), savings and credit cooperatives (SCCs), government / donor schemes and non-governmental organizations (NGOs). Notwithstanding a tremendous improvement in diversity and outreach of the financial sector in recent years, the demand of many economic entities for medium and long-term loans (3-5 years) at reasonable lending rates (10-15% per annum) is largely unmet. In addition, start-up entrepreneurs find it particularly hard to access loans, mainly because of high demands by banks, NBFIs and government / donor schemes for security.

Trade supervisory boards, tax offices, and insurance departments are the core public administration departments that economic entities in Mongolia have to deal with. Although the administrative assistants interviewed are aware of transaction costs caused by registration and licensing procedures, they do not see much scope for a reduction. Their positive self-assessment of customer orientation, however, is in contrast to the entrepreneurs’ view: small economic entities, in particular, complain of slow processing of applications, insufficient explanation of delays, poor counselling standards, and official forms that are sometimes hard to comprehend. Cases of corruption were also reported.
Difficult access of the population and economic entities to politically and economically relevant information (whether general, such as market prices, or specific, such as certain production technologies) is a major obstacle for RED in the pilot regions, particularly in Zavkhan (see chapter B3). Internet facilities and local newspapers are largely absent, local radio and TV stations are either non-existent or out of operation. Local BDS providers face similar difficulties and are, thus, not yet able to fill the gap.

As a result of financial constraints, the educational situation is unsatisfactory, above all in Zavkhan. Teaching facilities and equipment are in bad condition, teaching materials are either outdated or non-existent, and the teaching staff lacks practical experience and opportunities for advanced training. As a result, many parents prefer sending their children to schools and colleges in the Central Region, qualified teachers prefer to stay in the capital or other larger cities (not least because of huge wage differences between Ulaanbaatar and the rural regions), and graduates from existing local educational and vocational training institutions have difficulty in matching the demands of potential employers.

Mongolia’s democratic constitution and federal structure, combined with the political will of the ruling party to promote balanced regional development, forms the basis for local participation in RED. Yet, recent laws strengthening the power of the central government, insufficient information on government regulations and programmes, and widespread political inactivity and disinterest limit the involvement of various stakeholders, including the local population, in relevant decisions concerning the regional economy (see chapter B4):

- All local projects that cost money (e.g., introducing a new subject to a college curriculum or installing a transmitter for mobile phones) have to be approved at higher administrative levels, usually in Ulaanbaatar. Local governors have to lobby at the aimag government or in the central ministries, where implementation of local initiatives is either rejected or delayed.
The lower the administrative level, the less budget sovereignty lies with local governments. While aimags (provinces) have to pay most of their income tax directly to the capital, soums (districts) can only keep income tax that exceeds the target amount set in Ulaanbaatar. Bags (communities) have no budget of their own.

Information on laws, regulations and government programmes is seldom available to the public, not only due to the absence of media (especially in Zavkhan) but also to a restrictive government information policy. Public notices are rare and meetings where relevant information is shared only take place at long intervals.

Many local people do not exercise their legal right to participate (also reflected in a drop in polls), either because they are unaware of them or because they do not perceive them as an opportunity for change.

Non-compliance with laws (e.g. forestry regulations, labour laws) as well as corruption and nepotism were reported in several interviews. The negative consequences are, for instance, over-exploitation of natural resources, illegally bad working conditions for employees, and difficulty of local entrepreneurs to implement their business ideas.

In order to support economic development in both pilot regions and the participation of local stakeholders, the new programme should assist existing public and private institutions in improving access of economic entities and the population to information dealing with politics, technology, and the market, and to credit, education and advanced training. Lowering administrative hurdles would also be worthy of support. More specific recommendations in this respect include (see chapter C2):

To improve information flows, the programme should support local initiatives to put local media such as newspapers, television, and radio back into operation, to establish versatile information centres open to everyone, to intensify the organization of exhibitions and trade fairs, and to provide start-up entrepreneurs with tailored information.
Financial services should be improved by providing funds that match the capital stocks of savings and credit co-operatives and non-bank finance institutions, by promoting the formation of SCCs, by giving start-up entrepreneurs access to special credit programmes, and by inviting bank representatives to RED-related informative local meetings or consultations.

Support to business development service providers should include procurement and financing of technical equipment and training courses on selected subjects, assistance in creating awareness among potential clients of the possible utilization and advantages of business development services, support in forming co-operatives and co-operative associations, and assistance in networking among different national service providers and establishing contacts with foreign institutions.

Local stakeholders in Zavkhan suggested a variety of measures to improve educational and vocational training that should be supported: creation of incentives for teaching staff to stay and work in the region, provision of up-to-date teaching materials and equipment; focus on practice-oriented education, and strengthening of co-operation between educational institutions and economic entities.

To improve the competitiveness of economic entities it is recommended to

- support and train herders and farmers to motivate them and enable them to produce high quality raw materials;
- assist local actors in marketing the characteristics of the aimags and the uniqueness of its people and products;
- improve producer know-how in handling new and more suitable equipment through (re-)qualification measures;
- assist SME, vegetable farmers, herders etc. to collect, process, and market their goods in groups and co-operatives;
- support methods to expand plant cultivation and material processing time spans;
- focus on programme support to small and medium economic entities, as they are in most need and can create jobs and income for the local population,
• promote environmentally sound production and processing
that focuses on sustainable utilization of natural resources.

To improve the framework for participation of local stakeholders
in the programme - and in RED in general - the following
measures are suggested:

• In order to reconcile regional and national interests, pro-
gramme measures and objectives and the responsibilities at
various levels should be clearly defined from the outset, and
local and regional authorities actively involved throughout
the planning and implementation process.

• GTZ should support and actively demand measures that
strengthen the autonomy and power of regional authorities;
they should also conduct or support legal advice to national
and regional governments on matters of regionalization
(particularly budgeting) and law enforcement.

• The programme should promote and organize information
activities (e.g., workshops, publications, and TV and radio
programmes) about current possibilities for citizens to partic-
ipate in RED; each citizen has the legal right to attend bag,
soum and aimag parliament meetings, to make requests and
proposals to state organs, to form citizen groups, co-opera-
tives, and associations, etc.

• To support compliance with the law, the programme should
not only install effective supervision and control mechanisms
for planned activities but also support groups and organi-
izations that are committed to law reinforcement and the
fight against corruption and nepotism.

In the planning and implementation of regional economy pro-
motion measures in the pilot regions, the programme should use
a participatory learning approach geared to existing concepts of
Local and Regional Economic Development (LRED) (see chapter
C3).

The programme should seek synergy with other donors and
organizations promoting development in the two regions. As al-
ready envisaged, the programme should also closely co-operate
with - if not integrate - existing GTZ-supported projects.
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<td>ADB</td>
<td>Asian Development Bank</td>
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<td>Adventist Relief and Development Agency</td>
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<td>AEU</td>
<td>Aktions- und entscheidungsorientierte Untersuchung (action and decision-oriented survey)</td>
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<td>ASDP</td>
<td>Agricultural Sector Development Programme</td>
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<td>BDS</td>
<td>Business Development Services</td>
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<td>BMZ</td>
<td>Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry of Economic Co-operation and Development)</td>
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<td>CCI</td>
<td>Chamber of Commerce and Industry</td>
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<td>GDP</td>
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<td>GER</td>
<td>Growing Entrepreneurship Rapidly</td>
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<td>GTZ</td>
<td>Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Co-operation)</td>
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<td>ICCI</td>
<td>International Chamber of Commerce and Industry</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>JSC</td>
<td>Joint Stock Company</td>
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<td>MCTIC</td>
<td>Mongolian Co-operative Training and Information Centre</td>
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<tr>
<td>MNT</td>
<td>Mongolian Tugrik (1,000 MNT = 0.86 USD as of October 2003)</td>
</tr>
<tr>
<td>MOFE</td>
<td>Ministry of Finance and Economy</td>
</tr>
<tr>
<td>MRPP</td>
<td>Mongolian Revolutionary People’s Party</td>
</tr>
<tr>
<td>NBFI</td>
<td>Non-Bank Finance Institution</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>NORAD</td>
<td>Norwegian Agency for Development Co-operation</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organization of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>p.m.</td>
<td>Per month</td>
</tr>
<tr>
<td>PACA®</td>
<td>Participatory Appraisal of Competitive Advantage</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>PSARTI</td>
<td>Plant Science Agricultural Research and Training Institute</td>
</tr>
<tr>
<td>RED</td>
<td>Regional Economic Development</td>
</tr>
<tr>
<td>RRA</td>
<td>Rapid Rural Appraisal</td>
</tr>
<tr>
<td>SARS</td>
<td>Severe Acute Respiratory Syndrome</td>
</tr>
<tr>
<td>SCC</td>
<td>Savings and Credit Co-operative</td>
</tr>
<tr>
<td>SHO</td>
<td>Self-Help Organization</td>
</tr>
<tr>
<td>SLE</td>
<td><em>Seminar für Ländliche Entwicklung</em> (Centre for Advanced Training in Rural Development)</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprises</td>
</tr>
<tr>
<td>SWOT</td>
<td>Strengths, Weaknesses, Opportunities, Threats</td>
</tr>
<tr>
<td>TACIS</td>
<td>Technical Assistance to the Community of Independent States</td>
</tr>
<tr>
<td>TDB</td>
<td>Trade and Development Bank</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>UNESCO</td>
<td>United Nations Education, Science and Culture Organization</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>WiRAM</td>
<td><em>Wirtschaftsreformen und Aufbau der Marktwirtschaft</em> (Economic Reform and Build-up of Market Economy)</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
Glossary

Aimag  Regional administrative and territorial unit, comparable to a province or German Bundesland; aimags are subdivided into ⇒ soums

Arol   Sun and air-dried quark

Bag    Local administrative and territorial unit, comparable to a community or German (Verbands-)Gemeinde

Business development services Non-financial services to increase the competitiveness of ⇒ economic entities; examples of these are training, counselling, organization of fairs, Yellow Pages

Ceramsit Special insulation material consisting of balls of different size up to one inch. Ceramsit gravels are grains made of argil heated up to high temperature.

Economic entities Generic term widely used in Mongolia (and other post-socialist countries) to describe enterprises with different legal forms (limited liability company, joint stock company, co-operative, state-owned enterprise, etc.), size (micro, small, medium, large-scale), type of business (production, service, trade, etc.), and degree of market integration (subsistence or market orientation)

Gan    Extremely dry summer

Ger    Traditional Mongolian yurt (round tent)

Khorshoo Co-operative

Local champion A successful and respected person who is both skilled and motivated to contribute to ⇒ regional economic development

Owoo Pre-Buddhist shamanistic site

Regional economic development Economic promotion and employment measures related to a certain area, using approaches that support local actors in unfolding the development potential of their region
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sartuul wool</strong></td>
<td>Particularly fine sheep’s wool produced in the Western Region of Mongolia</td>
</tr>
<tr>
<td><strong>Soum</strong></td>
<td>Local administrative and territorial unit, comparable to a district or German <em>Landkreis</em>; <em>soums</em> are subdivided into ⇒ bags</td>
</tr>
<tr>
<td><strong>Start-up</strong></td>
<td>Enterprise that is either planned, in the process of authorization, or newly established</td>
</tr>
<tr>
<td><strong>Transaction costs</strong></td>
<td>Expenses incurred while conducting business transactions, such as registration, application or licensing procedures, search for information on prices and markets, and negotiation of contracts and their fulfilment</td>
</tr>
<tr>
<td><strong>Yak</strong></td>
<td>Long-haired cattle, wild or domesticated, of mountainous regions of Central Asia</td>
</tr>
<tr>
<td><strong>Yurt</strong></td>
<td>Round felt tent of Central Asian Nomads</td>
</tr>
<tr>
<td><strong>Zud</strong></td>
<td>Extremely harsh winter</td>
</tr>
</tbody>
</table>
Herders driving their cattle (Zavkhan aimag)
1 Background and objectives of the study

“Land of blue skies” Mongolians proudly call their country. Indeed, Mongolia’s natural beauties are stunning: snow-white mountains under blue skies, yellow sandy dunes in green grasslands, dotted with black and white yaks and yurts. The nomads - who still make up a third of the population - particularly love the country and the natural environment they live in. Their traditional lifestyle is well adapted to it. Like many Mongolians, they worship nature and the holy mountains, such as Otgon Tenger in Zavkhan aimag, and offer sacrifices of vodka, milk or food. These shamanist beliefs persist, although most Mongolians have been Buddhists for hundreds of years and, culturally and religiously, are strongly connected to Tibet. Despite almost 70 years of socialism, the suppression of Buddhist culture, and the destruction of hundreds of monasteries, many old traditions and beliefs have survived in Mongolia and are enjoying a renaissance.

At the same time, Mongolians are well educated, modern, and open-minded in their views as a result of the many schools and universities that were established all over the country during the socialist era. Almost every family has at least one son or daughter studying in the capital, Ulaanbaatar, or abroad, many have satellite television in their yurts and houses. Notwithstanding the difficulties, many people managed to adapt their way of life to the new market conditions following the transition in 1990 - for example, by opening their own small businesses.

Nevertheless, not everyone can handle the new situation, neither are the old traditions - for example, in nomadic animal husbandry - known to everyone. In recent years, many of the livestock died during the zuds - extremely harsh winters - because owners did not have sufficient fodder stocks. In some parts of the country, especially close to large urban centres such as Darkhan or Ulaanbaatar, there are serious problems of overgrazing, as herders in these regions no longer follow traditional moving patterns, and pasture management systems are not in place.

The transition in the political and economic system is a major challenge for Mongolia, its people and for the government. In its current strategy for economic growth and poverty reduction, the government states: “Since 1990 Mongolia embarked on a path of building a democratic society which respects human rights and is committed to developing a market economy, undertaking sweeping changes and reforms touching all spheres of social life. Mongolia, with the assistance of international financial institutions and other donor community, has made a substantial progress over the past decade of
democratic restructuring in developing a sustainable macroeconomic foundation and creating a private sector-led open economy.”¹

For many years, the German government has supported Mongolia in its endeavour to move from a planned to a market economy. In the process of supporting a socially and economically balanced development of the country, the need to strengthen regional economies, based on their specific - and often unique - resources and potential, has become more and more apparent. To address this need, the Mongolian Ministry of Finance and Economy (MOFE) and the German Agency for Technical Co-operation (GTZ) are currently preparing a new programme entitled “Promotion of the Regional Economy”. GTZ invited a team from the Centre for Advanced Training in Rural Development (SLE), Humboldt University Berlin, to contribute to the planning of this programme by providing relevant information on the economic and institutional framework for regional economic development in Mongolia.

1.1 Programme for “Promotion of the Regional Economy“

Several agreements between the German and Mongolian governments constitute the framework for the new programme and are outlined below.

Inter-governmental agreements

Based on an evaluation of the Mongolia Country Programme commissioned by the Federal Ministry of Economic Co-operation and Development (BMZ) in 2001, the governments of Mongolia and Germany agreed to focus future bilateral development co-operation on Economic Reform and Build-up of the Market Economy (WiRAM) and Environmental Policy and Protection of Natural Resources, including Renewable Energies (RS-EE).²

Both areas are seen as complementary, since they are directly connected with the sustainable utilization, processing, and marketing of local resources at different stages in the value chain. Moreover, both serve the ultimate goal of environmentally compatible socio-economic development.

In the course of inter-governmental negotiations in Ulaanbaatar in September 2002, two Mongolian project proposals entitled “Local and Regional Economic Development” and “Ecological Restructuring of Local Economies” were submitted to BMZ, the essentials of which are:

¹ GOVERNMENT OF MONGOLIA 2003a:1.
² MONGOLIAN-GERMAN DEVELOPMENT CO-OPERATION 2002.
• acceleration of economic growth and social progress through efficient utilization of land and natural resources, and
• promotion of ecological restructuring and reduction of pressure on Mongolian pastures (i.e., decrease in desertification) through more employment opportunities outside of animal husbandry.

As both proposals are concerned with the agreed focus of development co-operation and have corresponding subject matters, they were integrated into one programme entitled “Promotion of the Regional Economy”, for which 5.5 million EUR have been allocated on the German side for the initial phase. The programme will be implemented by MOFE, supported by GTZ.

The new programme will come under the portfolio of WiRAM and concentrate on “the creation of an entrepreneurially friendly environment under particular consideration of rural areas”. In order to contribute to a “quantitative and qualitative improvement of domestic production and value added in order to achieve international competitiveness”, the Mongolian and German sides agreed to work together in the following fields:
• increased competitiveness of micro, small and medium-sized enterprises and co-operatives in rural and urban areas;
• finance system development;
• design of an export-oriented economic trade policy to increase international competitiveness.

Methodological approach

The GTZ East Asia Regional Department working proposal suggested basing promotion of the regional economy on a methodological approach, whereby
• “in a geographically (if necessary, also administratively) defined area,
• which shows common characteristics (geologically, climatically, culturally, etc.),
• regional resources (natural, human, etc.) are realised as potentials - often as comparative advantages over other regions -, and
• these potentials, through specific and well-arranged measures under involvement of various actors (from politics, administration, economy, and civil society),

3 The Dutch Government has expressed interest in providing additional finance for certain programme components, but a final decision has not yet been taken.
are tapped and used in cross-wisely joined fields.”

Seen as a “combined approach”, it is expected to “create employment and additional income through deepening the local value added and, in the end, aim at the revitalization of the regional economy and its tie-up to national and international economic cycles”.⁴

Objectives and target groups

The following programme objectives, components, and target groups were specified during a GTZ-led appraisal mission in September 2003 and signed in the minutes of a meeting held between representatives of MOFE and the mission team:

“The objective for the total duration of the programme is to develop the economy in the two programme regions. [...] Development measures will generally be based on the Mongolian policy for regional development, emphasize on local resources as well as labour-based growth and take the specific conditions and potentials of the two programme regions into consideration. [...] The proposed programme duration comprises 10 years, split-up into three phases of four, four and two years, respectively. [...] For the first phase the following four programme components are proposed: development of marketable, ecologically sound products in the two regions, strengthening of local actors, facilitating the provision of demand-oriented financing services, and enhancing trade and economic policies. [...] The target group or the final beneficiaries are the people of the programme regions in question. They will not directly be reached by the programme but through a comprehensive network of mediators. The programme will mainly work through government offices at national, regional and local levels as well as relevant committees and councils, financial service institutions, chambers of commerce and industry, co-operative organizations, non-governmental organizations, associations of specific groups of people, enterprises and especially small and medium enterprises and others”.⁵

GTZ expects to be commissioned with programme implementation in the summer of 2004, so that activities can presumably commence in October.

The programme regions

⁴ GTZ 2003.
⁵ MOFE / GTZ 2003:3.
Subsequent to negotiations, the German and Mongolian governments agreed on the following criteria to identify target regions for the implementation of the new programme: infrastructure realities (transport connections, communication facilities, energy, water); starting points and prospects for entrepreneurial activities in the most important sectors (already identified by the Mongolian government), work-force, and geographic location with regard to markets for procurement and sales.

A German external expert analysed 13 aimags (Mongolian equivalent of provinces) in relation to these and other criteria (e.g., possibility of tying the programme to earlier GTZ interventions, complementarities of activities of other donor agencies, political priorities of the Mongolian government). The result was a decision to implement the new programme in two regions around the following development centres:

- **Darkhan** as the regional development centre in the north of the Central Region, comprising the three aimags Darkhan-Uul, Selenge, and Tov;

- **Uliastay** as the regional development centre in the east of the Western Region, comprising the two aimags Zavkhan and Gobi-Altay.
During the appraisal mission, GTZ and MOFE decided to introduce the programme in two pilot regions, namely Zavkhan aimag and the region comprising the Darkhan-Uul and Selenge aimags. The idea is to focus development assistance and create visible impacts as soon as possible. In the course of the envisaged 10-year programme implementation, however, the pilot regions will be extended to incorporate Gobi-Altay, Tov, and possibly other aimags, once first assessments of success and failure have become available.

1.2 Objectives and topics of the study

After funding of the new programme had been secured and programme areas determined, GTZ began to collect and assess the following information, relevant to the consistent design of interventions:

- institutional and legal framework for regional economic development,
- entrepreneurial environment in terms of business development services, finance institutions, educational and vocational training, and work-force,
- prospects and constraints for enterprise development and the extension of value chains,
• possible complementarities or overlapping with activities of other donor agencies, and
• likely ecological and social impact of regional economic promotion.

GTZ Mongolia decided on external support to perform these tasks. An interdisciplinary SLE team was expected to contribute significantly to the planning of the new programme.

Objectives and outputs of the study

GTZ Mongolia and the SLE agreed on the following objectives and outputs:

| Goal: Contribution to sustainable regional economic and employment development in Mongolia |
| Purpose: For further planning of the new “Promotion of the Regional Economy” programme, GTZ and their Mongolian partners use the relevant information and SLE study findings on |
| - natural, economic, and institutional prospects and constraints at local, regional and national level, |
| - as well as on the interests and needs of producers, small and medium-scale entrepreneurs, service providers, and other relevant stakeholders |
| Outputs: |
| 1. Starting points, prospects and constraints for entrepreneurial activities and the extension of value chains have been analysed, and their impact on the regional economy and employment situation assessed |
| 2. Private and public institutions relevant to the promotion of entrepreneurial activities and regional economic development have been analysed |
| 3. Institutional and legal framework conditions for the participation of the local population in regional economic development have been analysed |
| 4. Recommendations on specifications of the programme concept as well as on the methodological approach to be used in promoting the regional economy of the programme regions have been made |
| 5. The findings and recommendations of the SLE team have been documented and discussed with GTZ representatives, their Mongolian partners, and other relevant stakeholders |

In producing Output 1, the SLE team was able to cross-check their survey findings with the results of several sector studies commissioned by GTZ (on
wool and hair processing, the leather industry, non-timber forest products, construction materials, rural roads, and tourism).

With regard to Output 2, the team agreed with GTZ to concentrate the study on Mongolian financial and non-financial service providers and leave the assessment of bilateral and international donor agency activities to the GTZ appraisal team.

Regarding Output 3, the team was able to build on a study by Prof. Udo Barkmann from the Centre for Mongol Studies at the Mongolian University in Ulaanbaatar. Barkmann scrutinized and interpreted laws and bills, administrative guidelines, policies, decrees and regulations that focus on regional development and the distribution of power between regional and central organs, as well as on budgeting, forms of citizen participation in regional development, access to political authority at various administrative levels, public budgets, and utilization and allocation of local tax revenues.

With reference to Output 4, in formulating recommendations on the programme concept and methods for promoting the regional economy, the team was able to complement its own findings by analysing a wealth of secondary sources.

In the context of Output 5, it was important for the team to present preliminary findings and recommendations to GTZ, MOFE and the relevant regional stakeholders as soon as possible, in order to guarantee their inclusion in the proposal to BMZ.

Study topics

The following topics were derived from the agreed outputs of the study:

- **Topic 1**: Starting points, prospects and constraints for entrepreneurial activities and the extension of selected value chains in the two pilot regions (see chapter B1).
- **Topic 2**: Private and public institutions relevant to the promotion of entrepreneurial activities and regional economic development (RED) (see B2).
- **Topic 3**: Institutional and legal framework conditions for the participation of the local population in RED (see B4).

The conceptual approach underlying the study and its design are presented in the following sections.
2 Concept and methodology of the study

The idea of formulating and implementing economic development strategies at local and regional levels is gaining increased attention. The concept behind ‘Local and Regional Economic Development’ (LRED) is gradually replacing ‘traditional’ approaches, whereby economic development was perceived as depending on activities formulated by central governments and implemented in a top-down manner with little consultation and involvement of target groups. These activities were based in particular on the external evaluation of prospects and constraints rather than the involvement of local stakeholders in the process. Furthermore, earlier approaches implied more strategic, comprehensive planning than LRED.

The aim of LRED is to create employment and generate income by means of a favourable business environment, to promote firm competitiveness, and to give new businesses an opportunity to participate in economic development.

2.1 The GTZ concept of regional economic development

The GTZ / BMZ concept of ‘Local and Regional Economic Development’ (LRED) served as a basis for the methodological approach of the study. According to this concept, instruments for promoting regional economic development are structured in the form of a hexagon (see figure 1 on the following page). The figure shows key fields and issues to be considered in the regional economic development process. The triangles entitled ‘target group’ and ‘locational factors’ represent basic instruments, while the ‘policy focus and synergy’ and ‘sustainability’ triangles are innovative instruments that widen the scope of regional economic development (RED) and give it a broader perspective. The last two triangles highlight instruments for the effective co-ordination and implementation of RED. In the following, the six RED cornerstones are presented briefly.

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6 One reason is that leading industrialized countries have successfully formulated and implemented development policies at the local and regional level (MEYER-STAMER 2003:1).

7 For the discussion on LRED and its possible contribution to poverty reduction in developing countries, see, for instance, MINKNER-BÜNJER 2001.

8 Several GTZ concept papers and further secondary literature use the term “Local Economic Development” (LED), while other sources speak of "Regional Economic Development". Apart from the fact that 'local' addresses a smaller geographic aggregate than 'regional', it seems difficult to draw a line between the two terms. This study favours the term 'Regional Economic Development' (RED).
**Target group:** The main RED target groups are local companies, start-up companies, and external investors. These three local player groups are mutually dependent. Local companies with a desire to concentrate on certain production activities for competitive reasons may need to outsource other activities. This, in turn, could provide opportunities for start-ups. In addition, locations with strong local company bases might be able to attract external investors.

**Figure 1: The LRED Hexagon**

**Locational factors:** The second triangle addresses three types of locational factors that determine the suitability of a region as a promising business environment: tangible locational factors (infrastructure, workforce, energy, etc.), intangible factors relevant to firms (proximity of related industries, business development services, universities, etc.), and intangible factors relevant to individuals (e.g., social infrastructure). RED initiatives are faced with the challenge of strengthening local advantages and creating a more profitable environment for business activities.

**Policy focus and synergy:** The third triangle highlights possible synergies between key RED policy fields, i.e., promotion of the economy, employment promotion, and urban and regional development. In achieving the overarching goal of RED to create jobs and income, it is often helpful to integrate employment promotion measures. At the same time, the image of a locality and its living standards can be important incentives in attracting both external investors and people. The required measures for achieving the RED aim are also addressed in urban and regional development planning.

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9 Source: www.wiram.de/toolkit/hexagon/hexa_mue_paca_paca.htm (slightly modified).
For more details on the GTZ / BMZ concept see the other pages of the WiRAM toolkit.
Sustainable development: This triangle seeks to combine economic, ecological, and social development in order to achieve a sustainable impact in RED. In other words, the challenge is to stimulate initiatives or projects that increase the competitiveness of local companies, while at the same time creating employment for a significant number of people and a positive impact on the environment (or at least avoiding its detriment).

Governance: Close co-operation between public and private sectors is considered essential for successful RED. In Mongolia, for instance, both the economic entities and the population are still adapting to changes brought about by the transformation of society and the economy, and some public institutions are still in a process of re-organization. A RED initiative involving different players from both sectors could stimulate co-operation and mutual understanding.

Planning, monitoring and evaluation: The last triangle demonstrates that once a RED initiative has been introduced, it enters a continuous process of evolution. In other words, RED is a permanent cycle embracing the three cornerstones of participatory diagnostic (motivation and mobilization), participatory planning (and implementation), and participatory monitoring and evaluation (reflection and adjustment).

2.2 Study design

The methodological approach of the study was influenced by the RED hexagon. The triangle ‘target group’ and the (institutional) ‘locational factors relevant to firms’ served as the basis for determining the groups to be included in the survey.

Target groups considered in the study

Economic entities comprising local, small and medium-sized enterprises (SME), family businesses, co-operatives, herders, and privatized educational institutions, regarded as such as a result of their income-generating activities, were the primary target groups studied.

In addition, the survey included start-ups and some external investors as core target groups. These groups were supplemented by a surrounding range of institutions and stakeholders considered relevant to regional economic development. In the course of field work, this structure (see figure 2 on page 14) allowed local stakeholders to immediately understand the challenging task of involving various actors in the RED process.
Example of a family business: three-generation farmer family in Selenge

Example of an SME: middle-sized dress-making factory in Darkhan
'Tangible locational factors' were reviewed in the pilot regions under the aspect of either fostering or limiting framework conditions for entrepreneurial activities and the extension of value chains, whereas ‘intangible locational factors relevant to individuals’ were addressed by taking an – albeit superficial – look at the migratory process of the local population and its underlying push and pull factors. Regional identity, moreover, became the subject of a question in the survey.

The issue of ‘sustainability’ was covered in the study by focused questions on environmental aspects of production and processing (e.g., utilization of by-products, waste disposal, natural environment degradation) as well as questions on the (likely) impact of local business plans and ideas on employment.
Study questions

In developing study questions for the survey, the team followed the concept of the action and decision-oriented survey (AEU), which requires the formulation of study topics (see chapter A1.2), from which relevant study questions are then derived. Due to their complexity, it was considered useful to break study questions down further into ‘working questions’. The latter served as a basis for the development of interview guidelines and other data collecting instruments. The following example illustrates the described procedure:

| Study topic: Starting points, prospects and constraints for entrepreneurial activities and the extension of value chains in the pilot regions |
| Study question (example): What are the unique characteristics (“unique selling points”) of the pilot regions? |
| Working questions: What distinguishes the pilot region from other regions in Mongolia? What are the particular features, products etc. of (distinguishable) sub-regions in the pilot region? What are people in the pilot region particularly proud of? Which (niche) products are not easy to copy? |

In developing study and working questions, the team followed an open approach without having previously formulated ‘scientific’ hypotheses. Instead, working hypotheses evolved during the survey and influenced the continuous adaptation of study questions and interview guidelines.

Data collection

In collecting the relevant information, the team largely followed the principles of participatory diagnostic and various publications on Participatory Appraisal of Competitive Advantage (PACA®). The basic idea behind PACA® is to come up with a rapid comprehensive analysis of the local situation, as perceived by different local stakeholders. The focus is, thereby, on economic potential, promising sectors and lines of business, challenges and problems that can be solved expediently, and, at the same time, contact with as many local stakeholders as possible, who are motivated to work towards a common goal. Similar to the PACA® suggestion, surveys in each pilot region began with a kick-off workshop for local stakeholders and continued with a series of interviews, focus group discussions and workshops for local actors, winding up with a final workshop devoted to the presentation and discussion of the survey findings.

According to PACA®, rapid participatory economic appraisal entails seven steps. The team oriented its survey on the first five, ranging from an introduction to
the principles of RED to the collection and analysis of relevant information. The last two of the seven PACA® steps, which are meaningful for the planning and implementation of new projects, were beyond the mandate of the team.

The team used various data collecting instruments from the Rapid Rural Appraisal (RRA) and PACA® toolboxes, including semi-structured questionnaires, brainstorming techniques, mapping tools (see the photo on the following page), SWOT analysis, self-evaluation instruments, and transaction cost analysis. Interview and workshop results were documented and discussed on the same day, whenever possible.

In addition to primary data, the team was able to draw on information collected by other consultants and researchers commissioned by GTZ Mongolia. Their findings - combined with an abundance of secondary data - helped the team to obtain a broader overview of the current economic situation in Mongolia and the pilot regions, but also to cross-check its own findings and results.
It was important for the SLE team to submit their initial findings to the GTZ appraisal team, in the form of two draft reports at the beginning and end of September, 2003, as the latter hoped to use the relevant survey findings in their discussions on the new programme with notable stakeholders.

Timing of the survey

Between 4\textsuperscript{th} and 18\textsuperscript{th} August, the team spent two weeks in Ulaanbaatar in order to present the study design to GTZ Mongolia and their partners, fine-tune working questions and interview/workshop guidelines, pre-test certain data collecting instruments, conduct interviews with resource persons, and make detailed preparations for the first field survey in Zavkhan.

The team spent almost three weeks in each pilot region during the field phase (19\textsuperscript{th} August to 26\textsuperscript{th} September) and received tremendous support from two interpreters and many of the local stakeholders in organizing and conducting the collection of information. In both regions, the team split up in order to visit as many places in the area as possible within the given time. On 25\textsuperscript{th} and 26\textsuperscript{th} September, team members joined the final workshop of the GTZ appraisal team. For a detailed overview of the survey phases and timing, see annex 1 on page 172.
3 General framework conditions for economic development in Mongolia and the pilot regions

The physical features and natural conditions of Mongolia combined with its political, economic, and social transition demonstrate a challenge to successful regional economic promotion. Extremely low population density, fragile ecosystems and a harsh climate, low purchasing power, complex infrastructural realities, partly unfavourable trade regimes, and inadequate government strategies for regional development call for the careful design of measures to promote employment and income generation in the pilot regions. This chapter provides an overview of the general natural and socio-economic conditions (3.1), briefly discusses the government strategy on regional development (3.2), and presents relevant facts on the programme pilot regions (3.3).

3.1 Relevant facts about Mongolia

3.1.1 Natural conditions

Mongolia is located in Central Asia, landlocked between Russia and China, with a maximum east-west extension of 2,405 km and north-south extension of 1,263 km. With a total area of 1.5 million km² and a current population of 2.4 million, resulting in a population density of 1.6 inhabitants per km², Mongolia is one of the most sparsely populated countries in the world.10

Geographically, Mongolia is a typical highland, dominated by deserts and steppes. The average altitude is ca. 1,580 m, with mountain ranges between 2,500 and 4,500 m.11 The topography and location of the country accounts for its continental climate, with long cold winters accompanied by low precipitation and relatively rainy short summers. Temperatures drop below -40°C during the winter and reach +30°C in the summer. The annual precipitation varies between 400 and less than 100 mm. Between 1999 and 2002, the climate was characterized by alternating zud (harsh winters) and gan (dry summers). Various vegetation zones have emerged in a north-southerly direction as a result of the interplay between relief and climate: taiga, forest steppes, steppes, desert steppes and desert. Around 80% of the total surface can be used for agriculture, but mainly as pasture land. Only 1% of the land is arable.12

10 GOVERNMENT OF MONGOLIA 2003a:8.
11 For the pilot regions, see also JANZEN 2003:4.
Despite its sparse population, remoteness, and size, the Mongolian environment is showing increased signs of damage as a result of human activity. High livestock concentrations and inadequate management have led to degradation of approximately a third of pasture lands. Intensive agriculture (wheat and fodder cultivation) - particularly the inappropriate use of drainage, herbicide and fertilizer - has increased the problem of desertification, wind erosion, and shifting sand dunes. In recent decades, cultivated land has forfeited 90% of its previous fertility.

Likewise, forests have been reduced from more than 9% of the total area to currently 6.5%\(^\text{13}\), due to legal and illegal cutting, and forest fires. Owing to the fragile nature of the arid Mongolian woodlands, damage is often irreversible.\(^\text{14}\)

Mongolia's growing environmental problems and severe climatic conditions must be taken into account in promoting regional economic development. Seasonal variation limits the productivity of numerous economic sectors (e.g., vegetable cultivation); overcoming these obstacles or adapting to them is a challenging task. Furthermore, economic activities in ecologically sensitive sectors (e.g., forestry, animal husbandry) need to be carefully planned and monitored.

3.1.2 Political conditions

Political parties

Between 1924 and 1990, the Mongolia People's Republic was supported politically and economically by the Soviet Union. During this time Mongolia was governed by a single party, the Mongolian Revolutionary People's Party (MRPP). The political transformation process that took place in 1989/90 led to the shift from a single-party to a multi-party system. Free elections were held in June 1990 for the first time, followed by the passing of a democratic constitution two years later. In 1996, the Democratic Union took power. Since then, however, the government has been unstable, resulting in frequent cabinet changes and new government leaders. In 2000, the MRPP won the elections by a majority.\(^\text{15}\)

A similar political development took place at the aimag level in the pilot regions Zavkhan, Darkhan-Uul and Selenge. Although well-trained, the members

\(^\text{13}\) FORKERT / STELLING 2003:113.


\(^\text{15}\) FORKERT / STELLING 2003:35ff.
of the Democratic Union lacked experience in the fields of administration and management, and, according to local stakeholders, officials were not equipped with a concept for the development of the aimags. The problems that emerged as a result of inexperience played a decisive role in the re-election of the MRPP, whose members were seen as more qualified in administrative work. Discussions between the various parties were not carried out in a constructive manner, thus adding a further obstacle to aimag development. The idea of competing on the issue of local and regional development strategies is not particularly developed within the parties.\(^\text{16}\)

Administrative division

Mongolia is divided into 21 aimags (provinces) and the capital city of Ulaanbaatar. Aimags are sub-divided into soums (districts). Both levels maintain administrations and representative bodies.

**Figure 3: Administrative levels of Mongolia**

Soums consist of bags, which are large sparsely-populated communities with representative bodies and an elementary administration. Leadership at each of the administrative levels (see figure 3) is provided by a governor. Parliamentarians at all three levels - aimag, soum, bag - are elected directly by the citizens.

Limited budgets and restricted decision-making powers on the respective regional laws make it difficult for politicians and local stakeholders to take decisions in the promotion of RED. Decisions on budgeting and laws are taken in the capital. Aimags and soums have limited power with regard to local budgets and laws - as a rule, they make proposals that are decided on by the central government in Ulaanbaatar. Bags have no budget at all. Apart from large

\(^{16}\) BARKMANN 2003:56.
institutions (e.g., health, education), soums provide almost all local forms of public service. Aimags have a regional policy and budget-formulating role, but are not authorized to take decisions on implementation and budgeting.\footnote{ASIAN DEVELOPMENT BANK 2003:16.}

Land rights

According to the new law on land privatization from 2003, land in and near towns and villages can be purchased and owned. Pasture land and agricultural land outside towns and villages is still state property and cannot be owned, but agricultural land can be leased.

3.1.3 Economic conditions

In the years 1990 and 1991, the interaction of a number of factors led to a dramatic decline in the Mongolian economy (which is still in a state of transformation), namely

- cessation of economical support by COMECON (Council for Mutual Economic Assistance)\footnote{Between 1962 and 1990, COMECON supported the build-up of Mongolian industry with technology and staff, and guaranteed a product market (see MÜLLER 2003:68ff.).},
- transition from a planned to a market-led economy,
- privatization of former state enterprises, and

Privatization took place in all sectors of the economy (industry, agriculture, services). At the same time, although Mongolia had now opened to the world market, most privatized economic entities were incapable of competing with foreign products in terms of price and technology. The outcome was tremendous shutdowns, especially in the processing industry.\footnote{See SIEMERS 2001:1.} Regions outside the traditional industrial centres (Ulaanbaatar, Erdenet, Darkhan) were particularly hard hit by the economic transition. In the face of modest domestic markets, extremely high interest rates, and long export routes, trading processed goods in competition with foreign supplies was an almost insurmountable task. A change in the economic structure was to be the consequence. Many Mongolians returned to animal husbandry\footnote{The number of cattle had meanwhile increased to 33.5 million in 1999, but declined due to \textit{zud} to 26.1 million in 2001 (see \textsc{The Economist Intelligence Unit} 2003:60.)}, so that agriculture once again began to contribute more to the GDP (in 2002: 1,262 million USD).
than the processing and mining industries.\textsuperscript{21} Farming, which had shown positive results before 1989, was also on the wane. Only the export industry (particularly copper, gold and cashmere) revealed signs of considerable growth, profiting from a rise in export prices in the mid-1990s.\textsuperscript{22}

Mongolia accounts for 30\% of the cashmere production worldwide. Further important agricultural export commodities are textiles, meat, and meat products. However, the export sector suffered under the Asian crisis in 1998, when prices for export goods dropped. Trade in animal products has in more recent years taken quite a knock as a result of \textit{zud} and \textit{gan}, while animal diseases (such as foot and mouth disease) led to temporary import bans in neighbouring countries.\textsuperscript{23} Furthermore, market demand for Mongolian products is determined by external factors, such as fuel prices or SARS. “Every fuel price rise has a domino effect, resulting in factory closures and general price increases […]. Mongolia’s economy has always been heavily affected by changes in the OPEC […].”\textsuperscript{24} These events had a severe impact on regional \textit{aimag} economies, which depend primarily on animal products.

Export and import

In 2002, China was Mongolia’s main trading partner, with an export volume of 227.2 million USD, equivalent to 47.4\% of total exports. Today, textiles are the second most important export, and primarily produced for the US market.\textsuperscript{25} Thus, the United States became the second most important export trade partner in 2002, with a volume of 156 million USD. Russia, previously the most important customer for Mongolian goods, made up only 41.9 million USD of the Mongolian export income, but still dominates the country’s imports, with 769.2 million USD. Mineral products, machinery, mechanical appliances, electrical equipment, and food are the principal imports. Food imports have increased since 1995 and accounted in 2001 for almost 17\% of the total volume of imports. In 2002, the trade balance deficit was -17\% of the total GDP.\textsuperscript{26}

\begin{itemize}
  \item \textsuperscript{21} See \textsc{The Economist Intelligence Unit} 2003:59.
  \item \textsuperscript{22} \textsc{The Economist Intelligence Unit} 2003:55.
  \item \textsuperscript{23} \textsc{The Economist Intelligence Unit} 2003:53.
  \item \textsuperscript{24} \textit{Gobi Regional Economic Growth Initiative} 2003c:16.
  \item \textsuperscript{25} This is due to the most-favoured-nation treatment of Mongolia by the US market. According to Mr. Twesten (during an interview in Ulaanbaatar on 9th October 2003), it should be taken into account that the quota regime will cease by 2004, leaving between 40,000 to 50,000 Mongolians out of work.
  \item \textsuperscript{26} \textsc{Asian Development Bank} 2003:4f. For more detailed figures see annex 2 on page 173ff.
\end{itemize}
Trade regulations

Trade regulations, recently altered by the Mongolian government, play a significant role in the development of the economy. In 1997 Mongolia joined the World Trade Organization. The government abolished import duties on all goods, except alcohol, tobacco, oil products, and vehicles. The repeal of import duties, especially for agro-products, led to a reduction in price for Chinese agro-products and put further strain on Mongolian farmers. Thus, in 1998 the Mongolian government began ‘Green Revolution’ programmes in an attempt to extend vegetable cultivation in the rural areas to 80% of the households by the year 2004. At the same time, the government re-imposed a seasonal 15% duty on flour and vegetable imports. The Mongolian government had already increased the general import duty rate to 7% by 2001.\textsuperscript{27} These efforts aimed at stabilizing the vulnerable Mongolian economy in a free market environment.

The present economic situation presents a number of challenges to the promotion of regional economic development. One avenue might be to unearth opportunities of substituting import goods, such as processed foods. Processing (of raw materials) also needs to be supported, with the aim of diversifying regional economic structures. In order to compete with neighbouring Chinese and Russian products and remain a contender on the world market, it is essential to improve standards. In the long run, Mongolia must find new strategies to establish its role on the world market.

3.1.4 Social conditions

The economic collapse in Mongolia produced a negative social impact. An estimated 20% of the working population is either unemployed or underemployed. Half of the unemployed are under 35 years of age,\textsuperscript{28} indicating that a major RED goal should be to create new jobs, particularly for young people, by promoting labour-intensive economic activities.

Mongolia is currently considered to be one of the poorest countries in the world, with a per capita income of less than 400 USD in 2001. 35% of the population live below the official poverty line (defined by the Mongolian government as 18,000 MNT per month) and 23% of the population have a daily income of less than 0.40 USD.\textsuperscript{29}

\textsuperscript{27} \textsc{The Economist Intelligence Unit} 2003:53.
\textsuperscript{28} \textsc{The Economist Intelligence Unit} 2003:46.
\textsuperscript{29} \textsc{Müller} 2003:64.
Previously state-sponsored education is now provided by both the state and the private sector. Primary and secondary schooling is still free of charge, while vocational and tertiary education is only partly state-funded. With support from the Asian Development Bank, education is currently in the process of being restructured, especially “[...] to improve education in rural areas, rationalize the use of the personnel and cut school drop-out rates”. The state budget for education rose between 1996 and 2001 from 14.8% to 20.7%.\(^\text{30}\) Compared to other countries in the developing process, Mongolia can boast of a well-educated population. The rate of illiteracy is below 2%.\(^\text{31}\)

Education is a key factor in the development of the aimags. Its decentralized provision is relevant to keeping young people in the rural areas; likewise, economic entities demand a skilled labour force to remain competitive on the market.

Migration

Roughly 60% of the Mongolian population is concentrated in cities, with one third in Ulaanbaatar alone. Massive migration from the rural aimags, primarily those in the west of Mongolia, has been taking place in particular since 1990. The chief pull factors of large cities include access to good education, health services, markets, and job opportunities. Despite a high number of livestock herds, water resources, raw materials, forests, and mineral deposits, many aimags (with the exception of Selenge and Tov aimag) have been unable to adapt to the free-market economy.\(^\text{32}\) Thus, remoteness, difficult access to markets, poor social and technical infrastructure, natural hazards, and “[...] man-made pasture degradation.”\(^\text{33}\) constitute the main push-factors for migration (primarily from the western aimags Uvs, Zavkhan, Gobi-Altay, Khovd). The growing influx into urban centres is chiefly responsible for the government initiative to promote regional economic development.

\(^{30}\) THE ECONOMIST INTELLIGENCE UNIT 2003:46f.

\(^{31}\) SPIEGEL ONLINE: Jahrbuch 2004 (http://www.spiegel.de/jahrbuch/0,1518,MNG,00.html).

\(^{32}\) GOVERNMENT OF MONGOLIA 2003b:1.

\(^{33}\) JANZEN 2003:10.
3.2 The Mongolian Concept on Regional Development

In view of the uneven distribution of industry, services, educational institutions, and of the population, the Mongolian government approved a Concept on Regional Development in June 2003. To achieve the main objective of creating balanced regional development, Mongolian territory has been divided into four economic zones - the Western Zone, the Hangay Zone, the Central Zone, the Eastern Zone - and the city of Ulaanbaatar (see map on page 26).

Development regions were defined in each of the economic zones, according to their natural, social, and economic conformity. The goal is to develop a new territorial structure by intensifying the relationships between aimags, soums, bags, cities and towns. The following economic areas were identified as the two zones relevant to the programme pilot regions:

- **Western Zone**: pasture animal husbandry, tourism, spas and mineral springs, industry to process ore, and the wood procurement industry. [...]
- **Central Zone**: pasture and intensified animal husbandry, agriculture, ore extraction and processing industry, small and medium-sized industry,
tourism, spas and mineral springs, other industries and services requiring high levels of intellectual skills.”

Map 1: Economic Zones and programme pilot regions

The Mongolian government intends to implement the Concept on Regional Development with various measures that include:

- legal co-ordination,
- provision of a budget, tax, investment, and development of a monetary policy,
- creation of regional banking, financial and insurance systems,
- provision of incentives for participation of economic entities, organizations, citizens and foreign investors in zonal development,
- support for co-operation between the different administrative levels, especially between the centres and the local level.

Further measures have been undertaken to promote economic, social, and cultural development, to protect the environment, and to combine these


35 Certain laws influence regional and local administration, as well as the government in Mongolia: (a) Constitution; (b) Law on Government; (c) Law on Administrative and Territorial Units and their Governance; (d) Budget Law; (e) Law on Property; (f) Special Laws for Cities; (g) Law on Regionalized Development, Management and Coordination.
measures: “Creating small and medium-sized industrial services in coordination with the need to utilize completely and properly the carrying capacity of the natural environment and potential of regions, and increasing the work experience and capacities of the populations of local areas.”\textsuperscript{36} There are also plans to improve the quantity and quality of social services such as education, health, and culture, providing them in “[…] a more autonomous decentralized basis than presently.”\textsuperscript{37}

To implement the regional concept, the Mongolian government plans to establish Regional Councils and a National Committee. The Prime Minister nominates the chairmen of the Councils. In addition, the governors of the aimags concerned and the administrators of the primary development centres (e.g., Uliastay, Darkhan) will participate in the Councils. Furthermore, the Council is to be composed of representatives of the soum and bag assemblies, of non-governmental organizations, Mongolian and foreign investors, and economic entities that contribute to the development of the region. Each Council member has to be confirmed by the Prime Minister.\textsuperscript{38}

According to an evaluation by the Asian Development Bank (ADB), proposals made in the Concept on Regional Development are “[…] at the very early stages of formulation, they have not yet been well specified, they have not been costed and they do not yet appear in the budgets or forward investment programs of either the government or foreign donors.” Plans in the regional strategy paper that distinguish between short and long-term interventions, must be prioritized for this reason.\textsuperscript{39}

Foreign development organizations should act in accordance with such governmental schemes in order to facilitate a coherent, productive, and integrated approach to regional development needs.

3.3 Pilot regions of the programme”

3.3.1 Zavkhan aimag

Located in the Western Zone, the Zavkhan aimag is known by its inhabitants as “Little Mongolia”, since its setting mirrors Mongolia’s physical features

\textsuperscript{36} See \textit{GOVERNMENT OF MONGOLIA} 2003b:8f.

\textsuperscript{37} \textit{ASIAN DEVELOPMENT BANK} 2003:29.

\textsuperscript{38} See \textit{BARKMANN} 2003:11.

\textsuperscript{39} \textit{ASIAN DEVELOPMENT BANK} 2003:29.
perfectly: high mountain ranges between 3,000 and 4,000 m, large depressions, flat plains, and sand dunes extending across vast areas. Zavkhan gol, a major river, provides the necessary water for humans and animals alike. The landscape features one of the highest mountains in Mongolia (Otgon Tenger, 4,021 m), 200 rivers and about 100 lakes, an indication of its natural diversity. Average temperatures vary between -22.6°C in January and +15°C in July. Precipitation is low and subject to enormous variability.40

With a total area of 82,400 km² and a current population of 87,468 41, Zavkhan is one of the largest and most sparsely-populated aimags in Mongolia. It is divided administratively into 24 soums and the aimag centre Uliastay, with a population of roughly 16,000 inhabitants. Tossontsengel, with 9,700 inhabitants, is the second most populated settlement.

Regional economy

The most important natural resource of the aimag is its vast pasture land. At present 1.44 million animals (sheep, goats, cattle, horses and camels) graze there.42 In 2000, the agricultural sector contributed 70% to Zavkhan’s GDP, mainly due to the keeping of livestock (see figure 4 on the opposite page).

With a share of about 0.4%, cropping plays virtually no role in the economy of the aimag at the moment. The figure shows that, apart from trade, the contribution of the secondary and tertiary sectors to the economy is negligible. The total number of economic entities is comparatively low, with only 141 entities officially registered in 2002. Former state enterprises in the processing industry no longer exist or were privatized to smaller economic entities after 1990/91, leaving countless people unemployed. At the moment, the official unemployment rate is 15.4%.43 Many of the unemployed returned to a nomadic lifestyle, leading to a huge increase in livestock in Zavkhan. Between 1998 and 2001, many of the ‘new nomads’ in Zavkhan lost their animals as a result of zud and gan: “Nearly 42% of total stock has been lost since 1998. [...] 937 families lost all their animals and 2,733 families more than 50%.”44

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41 At the beginning of 2003 (see BARKMANN 2003:Appendix IX).
42 BARKMANN 2003:Appendix V.
43 BLANKEN 2003:19.
44 JANZEN 2002:17.
Although the effects of zud had serious consequences for numerous families, there was also a positive impact: frequently overgrazed pasture land was able to recover from large numbers of livestock. The consequence of a decline in the standard of living, however, was a constant stream of emigration to Ulaanbaatar, Erdenet and Darkhan. Between 1996 and 2001, Zavkhan lost more than 14% of its current population (11,894 inhabitants).\textsuperscript{46}

Transport infrastructure

The energy and transport infrastructure of the aimag is relatively weak. Large sections of the roads between Zavkhan aimag and Ulaanbaatar are unpaved, so that it takes more than 24 hours to cover the distance of around 1,000 km. Although there is no railway connection, there are two airports: one approximately 35 km from Uliastay and the other in Tossontsengel. There are three flights per week to and from Ulaanbaatar. Paved roads do not exist

\begin{figure}
\centering
\includegraphics[width=\textwidth]{composition_gdp.png}
\caption{Composition of the GDP in Zavkhan aimag, 2000\textsuperscript{45}}
\end{figure}

\textsuperscript{45} BLANKEN 2003, Appendix 6:3.

\textsuperscript{46} JANZEN 2003: map no. 3.
outside the aimag centre, making travel within the aimag extremely difficult, especially for economic entities accessing external markets.\textsuperscript{47} To improve transport conditions, the Mongolian government has decided to connect Zavkhan aimag to the “Millennium Road” at the junction north of Uliastay. There are also plans for an improved road leading north-south, which will connect Altay (in the south), Uliastay and Tossontsengel with the “Millennium Road.”

![Image of the airport terminal in Tossontsengel (Zavkhan aimag)](image)

Energy supply

Zavkhan is one of the few aimags not connected to the main electricity supply line. Instead, the aimag centre and the soums use Russian and Japanese diesel generators. Therefore, the cost of energy is quite high and the supply unreliable.\textsuperscript{48} Some herders use solar or wind energy. Zavkhan aimag is a GTZ pilot region for the introduction of renewable energy concepts.\textsuperscript{49} The energy supply, currently a major constraint to the development of the aimag, will improve considerably once the new 8 MW hydroelectric power plant outside Uliastay goes online, and the existing plant - with a potential of 2 MW but now

\textsuperscript{47} Based on personal observation.

\textsuperscript{48} The Mongolian state currently subsidizes the energy for economic entities. According to a new law, energy prices will no longer be subsidized, but must cover costs (as reported by Mr. Gansukh during an interview in Ulaanbaatar on 8\textsuperscript{th} August, 2003).

\textsuperscript{49} See http://www.gtz.de/laender/ebene3.
producing only 800 kW - is upgraded. A hydroelectric power plant is currently under construction in Tossontsengel and will go on stream in 2004.

Using solar energy - an adapted energy supply for the nomadic lifestyle (Zavkhan aimag)

Regional development plan of the aimag government

The aimag government decided on various measures to develop Uliastay into a regional development centre, some of which are:

• technological renovation of (processing) industry, especially for meat production and construction materials;
• building of an industrial park for the processing of agricultural raw materials;
• renovation of electric cabling;
• construction of a 376 km long asphalt road between Altay, Uliastay and Tossontsengel (as a connection to the Mongolian “Millennium Road”);
• establishment of a car repair service for technical inspection and diagnostic;

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50 They were recorded in the aimag guidelines for the economical and social development of Zavhkan up to 2010 (BARKMANN 2003:AppendicesXIIIff.).
• establishment of a trade stock and data network for wholesale trade;
• in the field of education, transformation of the Economics College into an independent university, foundation of a foreign language school, and training of teachers and interpreters.

Current measures to implement these plans are important steps in the development of the aimag and therefore have to be carefully considered in the programme concept on regional economic development.

3.3.2 Darkhan-Uul and Selenge aimags

The programme pilot region in the central area of Mongolia consists of the two aimags Darkhan-Uul and Selenge, which are being taken as one pilot region because of their economic and geographical connections. Darkhan-Uul only became an independent aimag in 1994.
With a total area of 3,270 km², Darkhan-Uul is one of the smallest aimags in Mongolia and is divided into four soums. 70,000 of the 87,450 inhabitants live in Darkhan soum, which at the same time is Darkhan City. The latter is the second largest city in Mongolia⁵¹. Apart from raw materials (especially minerals), the primary natural resource of the aimag is agricultural land, allowing for animal husbandry (currently 273,000 heads), cropping, and vegetable cultivation.

Figure 5: Composition of the GDP in Darkhan-Uul aimag, 2000⁵²

Compared to other aimags, Darkhan hosts a large number of economic entities. It is an important centre for light industry, food processing and the construction industry. 14% of the country’s industrial production is located here. Local products and services are more diversified than in other regions (see figure 5 above).

Regional economy of Selenge aimag

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⁵¹ BARKMANN 2003: Appendix IX.
With a territory of 42,000 sq. km, Selenge aimag completely surrounds Darkhan-Uul aimag. The total population of about 100,000 is spread over 17 soums and the aimag centre Sukhbaatar (22,400 inhabitants).

Figure 6: Composition of the GDP in Selenge aimag, 2000

Compared to other aimags, Selenge has a large amount of forest land comprising 42.3% of its territory, of which almost half is used as pasture land, while 7.3% is taken up with hay-making. Apart from minerals, such as coal, lime and ore, over 90% of the country’s gold deposit is found in Selenge aimag. Economically, agriculture is the predominant sector in the aimag, with a 61% share of the GDP (see figure 6 above).

Nationwide, Selenge aimag has the leading position in the agricultural sector, producing over the half the nation’s grain, over 15% of its potatoes, over 20% of its vegetables and 20% of its hay. Most of the cultivated grain is wheat, which is primarily used in the making of spirits. The industrial sector produces almost

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53 BLANKEN 2003, Appendix 6:5.
54 Source: Mongolia Governor Office of Selenge Aimag.
all the country’s spirits.\textsuperscript{55} Data on the number of registered economic entities varies between 914\textsuperscript{56} and 1,400\textsuperscript{57}. Apart from the distilleries, the largest industrial branches are the flour industries, the cement, lime, and steel industries, and wood-processing.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{wheat_production.jpg}
\caption{Wheat production - the predominant sector in Selenge aimag}
\end{figure}

\textbf{Education}

Darkhan is also a centre of education in Mongolia, with 20 schools across the \textit{aimag} and 13 institutions of higher education in Darkhan city (universities, high schools, colleges) that ensure a constant supply of skilled workers. In comparison to other \textit{aimags}, the population of Darkhan-Uul and Selenge has a high level of education.\textsuperscript{58}

\textbf{Transport infrastructure and energy supply}

A modern road and a railway line connect the \textit{aimag} centres Darkhan and Sukhbaatar with Ulaanbaatar to the south and the Russian border to the north,

\begin{flushright}
\textsuperscript{55} Source: Mongolian Governor Office of Selenge \textit{Aimag}.
\textsuperscript{56} JANZEN 2003:22.
\textsuperscript{57} Source: Mongolia Governor Office of Selenge \textit{Aimag}.
\textsuperscript{58} BLANKEN 2003:Appendix 7:10.
\end{flushright}
making access to internal and external markets fairly easy. Using coal from Darkhan, Baganuur, Erdenet, and the Russian Federation, thermal and electrical energy plants supply the *aimag* centre and the *soums* with sufficient, reliable, and relatively cheap energy for industrial production.  

**Government regional development plan**

In the Mongolian Concept on Regional Development, Darkhan city is identified as a primary regional development centre for the northern part of the Central Region, including the *aimags* Selenge, Darkhan-Uul and Tov. Its comparatively advanced industry, transport connections, and educational institutions were decisive in this context.

As a result of national government plans to connect Mongolia to the international highway and the Asian railway network via Altanbulag-Sukhbaatar-Ulaanbaatar-Sainshand-Zamiin-Uud: “[... this connection will be turned into a major arena of international trade.”  

Additionally, a Free Trade and Economic Zone will be established in Altanbulag, the crossing-point to Russia. According to the Mongolian government, both measures will create a promising business environment for domestic and foreign merchants.

**Migration**

Due to favourable locational factors, Darkhan-Uul and Selenge *aimags* show high immigration rates, mainly from the western *aimags*. 53% of the Darkhan-Uul population is non-native. The immigration of herders is seen as a major reason for two crucial problems in the *aimags*: growing unemployment and degradation of pasture land. With more than 26% in Darkhan-Uul and 29% in Selenge *aimag*, unemployment rates are above average.

**Environmental problems**

Most of the immigrants take their herds along with them, producing an increase in the number of livestock in Darkhan-Uul and Selenge *aimags* that puts extreme pressure on pastures, particularly in the surrounding areas of Darkhan City and Sukhbaatar. In addition, wind erosion and shifting sand dunes reduce soil fertility. This is not only due to a higher number of livestock but also because of extensive areas of wheat and crop cultivation. Forests are in

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60 Government of Mongolia 2003b:11.
61 Blanken 2003:19.
decline, especially in Selenge aimag, as a result of legal and illegal deforestation, and forest fires.

Deforested hills in Selenge aimag
CHAPTER B: RESULTS OF THE STUDY

Drying of washed wool in Tossonsengel (Zavkhan aimag)
1 Starting points, prospects, and constraints for entrepreneurial activities and the extension of value chains in the pilot regions

Starting points, prospects, and constraints for entrepreneurial activities and the extension of value chains in the two pilot regions were analysed on the basis of primary and secondary data. By assessing the demand created by natural resources and their utilization, promising sectors and lines of business were identified in the aimags Zavkhan, Darkhan-Uul and Selenge. General preconditions for production and processing, such as stable energy and water supply / disposal, personnel qualification, the use of adequate technologies, and access to (market) information and (micro) credit apply to all sectors mentioned and are discussed at the end of chapter B1.

1.1 Regional resources of the Zavkhan aimag

The economic backbone of the western Zavkhan aimag and its soums is animal husbandry. Meat, wool, hair, hides, and milk were the core products of the region in the past and will be in the foreseeable future.62 Some of the regional characteristics identified in relation to these and other resources are unique (see map 2 on the next page), making them potential starting points for entrepreneurial activities and the future extension of value chains.

Herders in the western region of Zavkhan produce fine long woollen-white cashmere as well as some of the finest sheep’s wool in Mongolia. In addition, the region hosts two lakes rich in fish. Fish processing is already taking place at one of the lakes. Canadian specialists are currently verifying gold deposits in the south of the area. Furthermore, there are salt deposits in the northwest that are partly used in the production of iodized salt.

The northern area of the aimag is suitable for grain, vegetable, and fodder production because of its relatively favourable climate. In addition, proximity to the Russian border allows for border trade.

Considerable amounts of wild berries (blueberries etc.) grow in the eastern part of Zavkhan. Tossontsengel is an infrastructural junction and important trading centre in the region. Vegetable cultivation has already become a source of income in Tossontsengel and Telmen. Furthermore, the region contains the largest stock of trees in the aimag. Considerable marmot populations

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62 See also chapter A3.
and the existence of numerous wild herbs in the mountainous southern part of the area constitute additional natural resources.

Map 2: Important resources and products of Zavkhan

The southern region contains mineral water sources in the environs of Mount Otgon Tenger, which are only partly used at the moment. A unique characteristic of the area lies in its closeness to the urban centres of Uliastay and Altay. This benefits a possible revitalization of the location as a centre for milk production and milk processing (milk, butter, yoghurt, kefir, cheese).

The climate and soil of the central region around the aimag centre Uliastay is suitable for the further extension of vegetable cultivation and processing. Uliastay has a stable energy supply as well as various training and education facilities. Thus, the town provides the basis not only for energy-intensive processing facilities but also for education and further training.

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63 Based on interviews and workshops with local stakeholders.
The entire south-eastern region - in the triangle of Lake Telmen, Uliastay and Mount Otgon Tenger - is a beautiful landscape that is well preserved and contains an infrastructural nucleus including two tourist ger camps in Telmen and Yaroo soum, a sanatorium in the vicinity of Mount Otgon Tenger, and the airports in Uliastay and Tossontsengel.

1.2 Promising economic sectors and products of the Zavkhan aimag

An overview of the most promising sectors and products for regional economic development, the extension of existing value chains, and the possible creation of additional employment opportunities in Zavkhan is given in table 1 (on the opposite page) and will be discussed in the following sections.

1.2.1 Production and processing of agricultural products

Vegetable cultivation

The cultivation of vegetables boomed as a source of income and as a subsistence product after many families had lost their herds during the last two zuds, and once the privatization of land had begun. Consequently, self-sufficiency in potatoes has reached 90% in Zavkhan, while demand for other vegetables is still only being met to 50% by local farmers.64

Example of vegetable cultivation in Uliastay

Mr. Omoonzoo is a member of a co-operative that cultivates potatoes, red garlic, and other vegetables on 1.5 ha of irrigated land. The co-operative has nine members and employs labourers during the planting season. They sell potatoes to wholesale traders, who pay up to 150 MNT/kg in autumn and up to 300 MNT/kg in spring. Red garlic is sold at the farm gate for 4,000 MNT/kg. Other vegetables, such as tomatoes, onions, and carrots, are grown for their own consumption. None of the co-operative members processes vegetables; instead, Mr. Omoonzoo has installed storage facilities for potatoes and is constructing one for garlic. He is convinced that it would be profitable to expand the co-operative to include potato starch, processed vegetables, potatoes for animal feed, kitchen herbs, and tomatoes. He sees a potential market in particular for red garlic and would like to intensify production.

64 Interview with the mayor of Uliastay on 26th August, 2003.
Table 1: Promising sectors / products and preconditions in Zavkhan aimag

<table>
<thead>
<tr>
<th>Sector / product</th>
<th>Specific preconditions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agricultural products</strong></td>
<td></td>
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<tr>
<td>- Cultivation and processing of</td>
<td>- Availability of quality seeds</td>
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<tr>
<td>vegetables for the local market</td>
<td>- Irrigation and greenhouses</td>
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<tr>
<td>(import substitution)</td>
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<tr>
<td>- Cultivation and processing of</td>
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<tr>
<td>vegetables for the local market</td>
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<td>- Availability of quality seeds</td>
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<tr>
<td>- Irrigation and greenhouses</td>
<td></td>
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<tr>
<td><strong>Animal products</strong></td>
<td></td>
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<tr>
<td>- 1\textsuperscript{st} class wool</td>
<td>- Balanced herd composition</td>
</tr>
<tr>
<td>and hair for export (e.g., sartuul wool, cashmere, camel hair)</td>
<td>- Veterinary services (extension, treatment)</td>
</tr>
<tr>
<td>- 2\textsuperscript{nd} class wool and hair products for local</td>
<td>- Fodder production</td>
</tr>
<tr>
<td>and national markets (felts, carpets, etc.)</td>
<td>- Meat: strict hygiene control</td>
</tr>
<tr>
<td>- Primary processed hides</td>
<td>- Milk: basic technical infrastructure (cooling chain, etc.)</td>
</tr>
<tr>
<td>- Milk products for regional urban self-sufficiency</td>
<td>- Marmot: respect for the hunting season and quotas (stabilization of the population)</td>
</tr>
<tr>
<td>- Niche products: camel, yak, mare milk for supra-regional and international markets</td>
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<tr>
<td>- Marmot oil and fur</td>
<td></td>
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<tr>
<td><strong>Wild fruits and plants</strong></td>
<td></td>
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<tr>
<td>- Berry products for supra-regional markets</td>
<td>- Sustainable exploitation</td>
</tr>
<tr>
<td>- Pharmaceutical products for (inter-)national markets</td>
<td>- Reforestation</td>
</tr>
<tr>
<td><strong>Tourism</strong></td>
<td></td>
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<tr>
<td>- National / local tourism</td>
<td>- Improved service quality</td>
</tr>
<tr>
<td>- International tourism: upper price segment and possibly individual tourism</td>
<td>- Increased diversity of services</td>
</tr>
<tr>
<td>- Preservation of original characteristics</td>
<td>- Targeted public relations</td>
</tr>
<tr>
<td>- Co-operation with tour agencies and aimags</td>
<td>- Specialized knowledge in the tourism sector</td>
</tr>
<tr>
<td>- Co-operation with tour agencies and aimags</td>
<td></td>
</tr>
<tr>
<td>- Specialized knowledge in the tourism sector</td>
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</tbody>
</table>
Apart from Tossontsengel, where an American farmer is almost the sole supplier to the local raw vegetable market, a village near Telmen cultivates vegetables on 200 ha of irrigated land. Some of the co-operatives and private households in Uliastay grow vegetables, and 100 families around Yaroo have also taken up horticulture. Locals have considerable experience in growing ‘traditional’ vegetables such as potatoes, beets, and (red) garlic.65

Small-scale vegetable cultivation in Yaroo (Zavkhan aimag)

For the past few years, however, people have tried to cultivate ‘new’ vegetables, such as tomatoes, carrots, onions, cabbage, peppers, cucumbers, and certain herbs, mostly on a subsistence basis. An expansion of vegetable production is anticipated, but access to technology and markets remains a challenge.  

65 Red garlic is characteristic for the aimag and is not easy to find in other regions. In comparison with other varieties, it has a stronger smell and taste, and is also processed for medical purposes.
cultivation in the northern parts of the aimag and around Tossontsengel and Uliastay could satisfy local demand for raw vegetables and create income.

Vegetable processing

Processing of vegetables could result in increased substitution of imported vegetable salads, which amount to an annual value of 10.5 million MNT.\(^6^6\) Local products, however, could face strong competition, once processed vegetables from the central region of Mongolia (particularly Selenge and Darkhan-Uul, with their more favourable climatic and soil conditions) enter the market.\(^6^7\)

Example of vegetable processing in Zavkhan

One of the families interviewed near Telmen cultivates beets and cabbage in irrigated fields, and grows tomatoes and cucumbers in a greenhouse. They sell processed vegetables in recycled jars. Both husband and wife, who worked on state farms during the socialist era, have expertise in horticulture and a stable income from the sale of salads.

Specific preconditions for vegetable cultivation and vegetable processing

- **Quality seeds** must be available for vegetable cultivation. The Adventist Development and Relief Agency (ADRA), e.g., distributes seeds in its project area, which people would otherwise have to buy in other regions.
- Risky and unfavourable climatic conditions raise production costs and require **irrigation and greenhouses** for the cultivation of certain vegetables, such as tomatoes or peppers.

1.2.2 Production and processing of animal products

Wool production and wool processing

Almost a third of Mongolian wool is produced in the western aimags. “The Western area is the highest quality wool preparation area. 50% of the total production of raw sheep wool in this area belongs to first and second classification of semi coarse wool.”\(^6^8\) Despite recent zuds, the aimag was still

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\(^6^6\) Contribution of a participant at a workshop in Uliastay on 19th August, 2003.

\(^6^7\) Local producers in Uliastay calculated that they could sell a jar of vegetable salad between 1,000 and 1,200 MNT. The price of a comparable salad product imported from Poland ranges from 1,400 to 1,800 MNT in Zavkhan, whereas the wholesale price for a jar from Selenge was estimated at around 800 MNT.

\(^6^8\) YONDONSAMBuu / ALTANTSETSEG 2003:5.
the second largest wool supplier after Uvs. Zavkhan produced 1,056 t of wool (1.5 kg wool / sheep), accounting for 8.25% of the nation’s annual wool output.

The particularly fine sartuul wool in western Zavkhan could become a profitable first-class product in the production of carpets. Zavkhan’s second-class wool is still of interest for domestic use in the production of ger felts, shoes, insoles, slippers, and insulating materials. Coarse hair, sorted from the sheep’s outer coat, could be used to produce ropes and doormats. There could be a market in particular for doormats in the booming Chinese hotel industry. Currently the unwashed wool is sold or traded directly to merchants, who either transport it to the central region for processing or smuggle it unprocessed to China.

Local actors stated that a useful first step in extending the wool value chain would be the installation of wool-washing facilities. 69 Thermal wool-washing

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69 Only one merchant in Uliastay, who buys 100 t of wool each year, had no interest in processing wool, since his Chinese clients in Ulaanbaatar preferred to buy the more inexpensive unwashed wool.
would not only create (seasonal) jobs and increase the value of wool, but at the same time reduce the volume and weight of the wool by 50%; thus, there would be a significant reduction in transport costs as well.

A commercial wool-washing plant in Tossontsengel

The main reason for the “Tessin-Gol Ltd.” company to install its wool-washing facility in Tossontsengel was the subsequent reduction in transport costs to markets. Furthermore, the company can export the washed wool directly to the Russian Federation and China via the north-south axis. The second-hand machine was installed in August 2003 and operates between 6 p.m. and midnight when electricity is available. If it were to run twenty-four hours a day, approximately 2 t of wool could be washed daily and about 20 people employed. The processing stages are as follows: 1. Stretching, 2. Washing (4 stages), 3. Drying, 4. Classification, 5. Compression. The company pumps water from its own well for the washing stages and heats it up in an old heating facility next to the processing hall. Soap and sodium are used to clean the wool. A wool warehouse beside the washing hall enables the company to continue washing until late autumn.

Investments in wool-washing plants seem profitable. The cost ranges between 5 million MNT for a small facility and 300 million MNT for a large plant; transport costs are reduced, and washed first-class wool procures up to four times as much as unwashed wool.70

Felt, carpet and wool yarn production at household or co-operative level could be a further possibility of processing the remainder of the second-class wool. Felt clothes, shoes, insoles, slippers, gloves, hats, and carpets are not the only products local people and tourists might need or would buy. Large format felts, i.e., to cover the traditional ger, could be produced, but are currently bought in Ulaanbaatar and brought back by truck.

Family-based wool processing in Yaroo

In Yaroo near Uliastay, one family produces yarn, shoes, slippers, hats, and carpets manually. The felt hats sell at between 4,000 and 10,000 MNT, while felt sandals cost 5,000 MNT. The products are mainly sold at trade fairs in Ulaanbaatar, since they produce the highest turnover. The family wants to keep the production at its present location because of the proximity to the raw wool market.

Hair production and hair processing

70 In mid-2003, average prices were 200 MNT/kg for unwashed and 900 for washed wool.
Gobi-Altay and Zavkhan together produced the highest volume of cashmere, with 278 t or 12% of the national output in 2002. However, only 5% of the cashmere added value stays with the herders. Most of the profit remains in the 85 cashmere-processing companies in Mongolia, which are primarily owned by foreigners.

Similar to wool, the washing, scouring, and dehairing of cashmere increases its value, at the same time diminishing its volume and weight. Apart from the added value, this process decreases transport costs. While scouring and washing might be an option to increase the value of combed cashmere in Zavkhan, it is difficult and costly\textsuperscript{71} to dehair and spin the cashmere into yarn.

### Hair processing in Tossontsengel

The difficulty of spinning cashmere into yarn was experienced by the “Suum Dalai” co-operative in Tossontsengel. The co-operative tried to spin its own cashmere yarn but was unable to remove the thick hairs and impurities from the cashmere, which blocked the eight Chinese manual weaving machines. The co-operative now buys its thread in Ulaanbaatar. Five people are currently employed in the production of sweaters, jackets, hats, and children clothes. Natural fibres, such as wool, cashmere, and camel hair, are hand-woven and tailored on commission only. A camel-hair jacket costs between 40 and 60,000 MNT, while a synthetic romper suit was offered for only 800 MNT. In general, clothes made of synthetic yarn sell in Tossontsengel, while natural yarn products are more difficult to sell due to their high price. If an item is sold, the co-operative takes 50% of the sale price, while the other half covers the material and wages. Weaving expertise was gained through training sessions in Ulaanbaatar and the machines procured with the financial assistance of a foundation.

During an interview, the vice-governor of Zavkhan emphasized the importance of cashmere processing for the region. Cashmere and wool-washing facilities alone could secure the financial independence of the aimag in his opinion. While unprocessed cashmere would cost 20,000 MNT/kg, the price for washed cashmere could soar to 80 to 90,000 MNT/kg. He saw a demand for washed wool and cashmere. From a purely financial standpoint, goats would therefore be the most profitable animals; however, to maintain an ecologically sound balance, it would be essential to keep sheep and other species as well.

\textsuperscript{71} An employee from the Gobi Factory in Ulaanbaatar, one of the country’s main cashmere-processing plants, stated that the company did not buy washed cashmere since it has its own washing facilities. The cost of a dehairing machine amounts to 250,000 EUR (according to a GTZ staff member from Kyrgyzstan).
Production and processing of hides and furs

According to an interview at the Armono Leather Institute in Ulaanbaatar, there is a demand for Mongolian winter coats and marmot hides in the Russian Federation. In Mongolia itself, leather is mainly used for the production of coats and shoes.

There are currently no hide or fur-processing facilities in Zavkhan, yet the quality of the hides is more superior than in the east of the country. Herders usually sell their animal skins in the summer and autumn, when weak or old animals are slaughtered. Apart from the 20 professional traders in Uliastay, there are also traders who earn an extra income on a seasonal basis. A leather stock exchange is in the planning stage (standards are already in place at the ministry of agriculture) to prevent herders becoming dependent on individual merchants.72

Both the Armono Leather Institute and the interviewed trader are interested in processing hides in Tossontsengel. The good road linkage would ease transport to and from the town. Moreover, primary hide processing would ensure a simpler, more cost-effective transport to Ulaanbaatar and prevent the spread of contagious diseases (e.g., marmot disease), quite apart from generating seasonal jobs. Therefore, the Institute plans to initiate a primary processing plant with storage facilities.73

Marmot fur is a much sought-after hide. The Russian Federation has a constant demand for marmot hides in the production of winter coats. Wholesale traders in Uliastay pay 5,000 MNT for a marmot fur, while the necessary hunting licence costs only 600 MNT. To satisfy demand in this lucrative business, approximately 50,000 marmots are shot annually in Otgon soum alone.74 The meat is often left untouched because the number of animals shot to obtain valuable fur exceeds the meat consumption in the region.

Russian consumers are not only interested in marmot fur for coats and hats but also in black fox fur. The “Tessin-Gol Ltd.” company in Tossontsengel has already prepared a hundred cages to raise black foxes.

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72 One of the wholesale traders interviewed in Uliastay buys up to 4,000 good quality sheep hides and marmot furs a month, and delivers them to Ulaanbaatar.
73 According to the Armono Leather Institute, businessmen should finance the planned facility. The plant could process up to a hundred hides per day.
74 Information from the head of the Governor’s Office in Otgon.
Production and processing of marmot oil

Extracting marmot oil from the fat of animals is yet another business potential apart from the sale of furs. The demand for Mongolian marmot oil has increased among sport professionals in Europe, due to the difficulty of procuring it there. Limited amounts of marmot oil have already been exported from Zavkhan to Europe.

Meat production and meat processing

Due to the large number of livestock, more meat is produced in the region than is required to satisfy the consumption needs of local people and their relatives in other regions. Only some of the animals and meat are exported to processing plants in the Russian Federation.

Zavkhan aimag has the second largest sheep herd in Mongolia. Most sheep intestines are sold unprocessed due to lack of facilities. Apart from the leading company, “Zavkhan Bayalag JSC”, only a few small enterprises in Uliastay use animal intestines to produce sausages. “Zavkhan Bayalag” processes sheep and goat intestines seasonally for export to China.

Bone meal is coveted in Japan as an organic fertilizer. One entrepreneur in Tossontsengel is currently trying to acquire information on how to obtain and install facilities for animal bone meal production. According to him, the demand is so high that in spite of transport costs to Japan, he could still make a profit.
Meat production for export in Tossontsengel

The “Tessin-Gol Ltd.” company stimulates foreign trade with Russia by delivering meat to Tuvenia. It profits from concessions recently introduced in Zavkhan, which allow the re-import of wheat. Twenty people work permanently at the slaughterhouse in Tossontsengel. An additional 50 to 60 people are employed for seasonal meat processing, which takes place in October and November. The enterprise caters exclusively for the slaughtering (not processing) of livestock, such as horses, cows, and yaks, for export to the Russian Federation. The livestock is purchased from local herders, but the company is currently in the process of breeding its own stock to raise the yield of usable meat per animal. Russian veterinaries inspect the facility regularly. Last year the slaughterhouse was closed down as a result of the SARS outbreak, and foot and mouth disease. Sausage production has been stopped because local demand (20 kg/ week) is too weak.

Milk production and milk processing

The aimag has a milk-processing tradition. Soums like Yaroo used to produce considerable amounts of butter and dry quark during the socialist era. Today, local milk and milk products are locally available in summer only. For regional (urban) self-sufficiency, long-life milk, milk powder, butter, sour cream, etc. could be produced to substitute imports and meet the demand in winter. Potential niche products for supra-regional and international markets could be yak butter and milk, camel milk, mare milk, and arol, with its high fat content and nutritional value. Furthermore, the healing properties of camel and mare milk are well known on the domestic market.

The area between Uliastay and Altay and their surroundings might be a suitable location for milk processing. Both cities could be supplied inexpensively on short and accessible transport routes. Yaroo soum is already selling its milk produce in nearby Uliastay. According to unconfirmed information, the privatized milk-processing facility in Bayang bag in the Otgon soum is not operating either due to a breakdown in the old milk collection system, lack of packaging materials or the absence of an electricity supply. Local sources reveal that 60 t of butter used to be delivered annually to the market in Ulaanbaatar.

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75 The leading company “Zavkhan Bayalag” in Uliastay is unable to meet the local demand with its annual milk output of 1,500 t.
Specific preconditions for the production and processing of animal products

- A **balanced goat/sheep ratio** of 30/70 is required to keep the goats warm during winter by surrounding them with sheep. Moreover, goats tend to rip out the roots of the grass, thereby destroying the grass sod completely, while sheep leave the roots intact. Currently the herds in Zavkhan have a goat/sheep ratio close to 50/50, while some soums have an even higher proportion of goats than sheep.

- **Veterinary services and support**, possibly free of charge at first but eventually on a cost-effective basis, are required to prevent diseases and ensure high-class quality of material.

- **Fodder production** for (harsh) winters is needed; during the recent zud, many animals died as a result of both inexperienced new herdsmen and insufficient fodder production and stock. Sufficient land has to be cultivated to produce grass and hay for the winter to prevent a shortage of fodder.

- **Strict hygiene control** for meat production and meat processing is mandatory to keep livestock healthy and be able to gain (export) market shares.

- The processing of milk requires a **basic technical infrastructure** (cooling chain, etc.) with appropriate technology.

- **Respect for the marmot hunting season** from mid-August until October is a precondition for stabilizing the population. Local people tend to shoot marmots and their offspring from the month of May onwards.

1.2.3 Processing of wild fruits and plants

Processing of wild fruits

Processed berries from Zavkhan could gain some of the market share currently dominated by foreign importers at local and supra-regional markets, including Ulaanbaatar. The current market for berry jam, juice, wine, and liquor is not being met.

So far, travellers have been buying raw berries in Tossontsengel on their way to the capital. The berries are collected by individuals or entire families, who join a truck that brings them to remote picking areas. The fruit is either bought directly by merchants or taken home by the people themselves. On a smaller

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76 According to a workshop participant in Uliastay, customs statistics show that Mongolia annually imports conserved fruits worth 18 million USD.
scale, private households process berries into jam or use them otherwise for their own consumption.

### Examples of berry processing in Zavkhan

The “Bayalag” Group in Uliastay processes berries professionally. The company produces 1,000 pots of jam annually and also distills a berry liquor.

A pharmacist in Uliastay bottles medical juice from berries. She is not in a position to satisfy the demand, which stretches as far as Ulaanbaatar. If diluted, the juice (rich in vitamin C, etc.) could also be a potential soft drink.

The biggest obstacle to berry produce is the absence of adequate glass jars. Since recycled jars cannot be disinfected properly and sealed tightly, the product is occasionally spoiled by mould. Therefore, families are reluctant to sell the goods and use them for their own consumption.

### Processing of wild plants

In Gobi-Altay one pharmaceutical company grows ephedra and cragana bush and would like to process the plants. Sea buckthorn, licorice and sophora are also valuable herbs, some of which are already “endangered because they have been so heavily harvested”. Growing and processing herbs is a promising venture, since 60,000 t of herbs are bought each year by Japan alone.

### Example of herb processing in Uliastay

A pharmacist in Uliastay processes wild sea buckthorn and other herbs. She buys the herbs in sacks from rural collectors and processes them manually into medicine and ointment. The sale of these medical products has been so successful that she even exchanges her products with other pharmacies to obtain rare herbs and various medical supplies. To meet the demand, she needs a 10 million MNT long-term credit to expand her processing equipment and employ four more workers.

### Specific preconditions for the processing of wild fruits and plants

Allegedly only 10% of the wild berries in the region are currently being made use of. Nevertheless, a well-managed and sustainable exploitation of berries is mandatory. With the decreasing size of forests as a result of fires and illegal wood-cutting, the environment for berries is also disappearing. Reforestation activities would therefore not only secure wood resources for future generations but also protect the habitat of non-wood products such as berries.

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77 See Gobi Regional Economic Growth Initiative 2003b:11.
1.2.4 Tourism

With its natural beauty and diversified landscapes, Zavkhan represents almost all the geographical features of Mongolia and could attract national and international tourists to the region. The aimag administration has already developed a rudimentary strategic plan for the development of the tourism sector, but no action has been taken up to now. Moreover, some tourist facilities are already in place, such as mud baths and ger tourist camps.

The upper-bracket price segment of international tourism could be a possible target group. As of today, no international or national tour operator covers Zavkhan, but group tours or individual trips could be offered, along with a wide range of possible activities in the aimag. These could include living with nomads, camel and horse-riding, fishing, trekking, hunting, mountain climbing, sauna visits, mud bathing, and visits to mineral springs, apart from sightseeing tours of natural attractions such as Mount Otgon Tenger and Lake Telmen.

Example of a tourism facility in Zavkhan

The tourist camp “Sambag” is located 20 km away from Telmen and currently offers only a rudimentary service with five gers, at 5,000 MNT per night per person. It is expected to open officially in spring 2004 and will accommodate up to 30 tourist visitors in 15 gers, including a restaurant and hot showers. The camp will co-operate with the tour operator “Unique Travel” from Ulaanbaatar in attracting visitors. Moreover, the convenient location of the camp is expected to draw tourists travelling from the western frontier aimags (e.g., Khovd) on their way back to the capital.

Individual tourists visiting the aimag without tour guides or agencies could be another target group, provided they can rent gers or rooms for overnight accommodation, as well as camels, horses, and cars in order to discover and experience Zavkhan.
Specific preconditions for the development of tourism

- To attract tourists, it is essential to offer a diversity of services and high standards, with a wide range of activities including sport, leisure, visits to mineral springs, safaris, while at the same time preserving the original features and customs of the aimag and its people (e.g., owoos, gers, camel and horse herds).

- Targeted public relations emphasizing the uniqueness of the aimag is required to raise the interest of potential tourist agencies or tourists in the upper price segment. Various media and audiences (trade fairs, Internet, newspapers, and brochures) could be linked.

- Co-operation of the aimag administration and existing camps in Zavkhan with tour agencies and neighbouring aimags is indispensable in integrating the region into existing tour programmes. International tours to the Gobi-Altay and Khovd aimags are already being offered.

- Employees need specialized knowledge in areas such as tourism organization, management and services; Bachelor and Master of Arts courses
in tourism are currently offered only in Ulaanbaatar. The “Competitive Initiative” has already provided some tourism training in Telmen, while the trade supervisory board organizes training courses for waiters in Uliastay.

1.2.5 Production of construction materials

There is a regional demand for wood in the area of construction as well as for carpentry products, such as ger scaffolds, chairs, tables, and cabinets. According to one local actor, “only 20% of the cut wood is processed, while 80% of it is wasted.” Along with forest management plans and reforestation activities, however, timber-sawing plants could be improved to increase the quality of the wood with (solar-driven) wood-drying facilities and thus produce less rejects. Moreover, rejects and saw dust could be pressed and glued to chipboards, which would be beneficial to numerous timber-sawing businesses and carpentries, and simultaneously secure and generate jobs.

Some of the interviewees run construction material businesses or plan to open one. All of them stated that there is a market for their products. Furthermore, the region is rich in raw materials, such as sand, stones, and lime for cement, chalk, and pre-cast walls and slabs.

Examples of construction material production in Zavkahn

The “Uran Tegsch” co-operative in Yaroo soum plans to revitalize a former brick production site, since the demand for bricks has not been met. It plans to produce a million bricks per year, which would be sold for 45 MNT each and generate an annual profit of 10 million MNT. Ten to 15 people could be permanently employed in the production of bricks.

“Zost Orgoo” in Tossontsengel was privatized in 1991 and employs 20 people. The company carries out construction works and repairs, and burns chalk and colours at a nearby site. The chalk is sold throughout the aimag. The owner is in the process of acquiring information on suppliers of machines to press the saw dust from the mills into chipboards.

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78 The term “specialized knowledge” implies that staff members speak English or other international languages and have a thorough understanding of the tourism sector.

79 Interview with Mr. Buyandalai, vice-head of the Democratic Party in Uliastay on 26th August, 2003.
1.2.6 Services

Due to the increasing number of cars in the region, small garages can be opened at soum level to meet the demand for repair and inspection services. Trained mechanics from the vocational college in Uliastay usually return to their soums and bags to open small car service stations in small groups of three or four. Apart from public services, such as waste collection and communal baths, there is a demand for private services that include sewing, shoe repairs, and photography.

A service provider in Tosson tsengel

Mr. Baldansamkuu has leased the gymnasium in Tosson tsengel for the past four years. For 100 MNT per hour, he rents the hall to youths and adults who want to play volleyball, basketball, football, and table tennis. Furthermore, he hosts the local meat market in one section of the hall, where a stand can be rented for 500 MNT per day. Other rooms are rented to a shoemaker, a photographer, and a horologist. In 2003, he founded the “Tulga khairkhan” co-operative, which has managed it since then.

1.3 Regional resources of the Darkhan-Uul and Selenge aimags

Agriculture is by far the most important economic sector in Selenge and Darkhan-Uul. Because of its relatively good climate and soil, the region is a centre for wheat and vegetable production (see also chapter A3.3 on page 35). A significant amount of livestock, mining activities, light industry, and the food and construction industries are other economic anchors in the region. The map on page 58 gives an overview of the key resources and products of the region according to location.

Herbs (medical) can be found in the north-western area, and also a coal deposit. Vegetables, wheat and fodder are harvested along the Selenge and Yeruu rivers. Milk production is concentrated in the area around Sukhbaatar, while border trade activities are carried out in Altanbulag, a border point with the Russian Federation. The government intends to boost and expand current trading activities by establishing a free trade zone.80

80 In the opinion of some local actors, this zone would have little influence on the economic development of the region, since it would purely serve as a market place or “gateway” to the Russian Federation. The Government has no plans to secure areas for productive businesses to settle.
The **eastern region** accommodates a thick and partly inaccessible forest. Besides the exploitation of wood, the local population makes its livelihood from mostly non-timber forest resources, such as wild berries and herbs. Additionally, small livestock owners produce fine wool, and informal gold diggers earn an income along the Yeruu river. The region also has an iron ore deposit that has yet to be exploited.

The **south-east** is known for its especially fine sheep’s wool, known as Orkhon wool, and serves furthermore as a centre for animal husbandry and its products. Chalk is mined in the Orkhon surroundings and burned to quicklime. Extended vegetable, crop, and winter fodder production is located along the Orkhon river.

The **southern region** surrounding the regional centre Zuunkharaa mainly produces vegetables, wheat, and milk. Similar to the north, this area offers a

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81 Based on interviews und workshops with local stakeholders.
good road and rail linkage, with potential markets in Darkhan (75 km), Ulaanbaatar (155 km), China, and the Russian Federation. Moreover, the triangle Bayangol/Zuunkharaa/Sharyn-Gol contains considerable gold deposits, which are still partly scouted.

The central region around Darkhan primarily hosts light and heavy industry, education and training facilities, market places, and services. The biggest employer in the whole region, with 1,000 employees mining coal, is in Sharyn-Gol. Two brickworks recently installed and 15 international gold-mining companies operate in the vicinity of Sharyn-Gol, while informal diggers attempt to earn a living in abandoned gold mining areas.  

1.4 Promising economic sectors and products of the Darkhan-Uul and Selenge aimags

Table 2 on the page 60 displays promising sectors and products for the extension of value chains and the creation of employment in the region.

1.4.1 Production and processing of agricultural products

Selenge aimag takes the leading position in Mongolia’s agricultural sector, but with an average of only 250 mm annual precipitation and extremely cold spells, agriculture is a risky business. Although the quality of the soil in Selenge is generally good, it lacks moisture, so that the wind increasingly blows the thin layer of fertile soil away. Therefore, one strip in the fields is not cultivated annually, in order to allow for soil storage of water and refreshment. Wheat is almost the only grain cultivated. In areas around rivers and in irrigated plots, the cultivation of vegetables is on the increase.

Wheat production and wheat processing

In cultivating wheat, local producers practice dry farming on an average area of 100 to 300 ha per farm. The yield is only 600 to 800 kg per hectare annually and – compared to Russian wheat – the grain is less competitive: low-grade seeds and dryness (a drought-resistant “red seed” is used) leads to a relatively low gluten content.

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82 The number of informal gold diggers has decreased considerably to 100, since a company intends to wash the soil with modern equipment. According to informal settlers at the gold camp, the relatively short distance to Sharyn-Gol allows access to transport, markets, services, and, if needed, schools and medical facilities.
Table 2: Promising sectors / products and preconditions in Darkhan-Uul / Selenge

<table>
<thead>
<tr>
<th>Sector / Product</th>
<th>Specific Preconditions</th>
</tr>
</thead>
</table>
| **Agricultural products** | - Availability of quality seeds  
- Quality of wheat (gluten content, etc.)  
- Diversified crop production  
- Vegetables: irrigation and greenhouses; organization of small vegetable farmers in groups or cooperatives to process harvests and gain access to markets |
| **Animal products** | - Veterinary services (extension, treatment)  
- Fodder production  
- Meat: strict hygiene control  
- Hides: quality improvement and control  
- Milk: basic infrastructure (cooling chain, etc.) |
| **Wild fruits and plants** | - Sustainable exploitation |
| **Raw materials** | - Sustainable exploitation of raw materials  
- Renewal of used sites |
| **General preconditions for all sectors and products:** | Stable energy / water supply / disposal, qualification of personnel, adequate technologies, efficient collection systems, storage capacities, availability of packaging / containers, attractive marketing, comparable quality to imported goods and lower prices, (market) information access, improved pasture management systems, and possibly quality breeding combined with a reduction in the number of animals |
Thus, some bakeries tend to mix cheap Mongolian flour with Russian flour. According to local farmers, improvement of seeds would produce higher quality wheat. The accrued chaff is used as fodder for ruminants, whereas low-grade wheat is used for small-scale pig and chicken breeding.

Example of a wheat cultivation company in Selenge

Mr. Soysolbat owns the “Undragch” company, which leases 2,000 ha of land and cultivates wheat on 1,000 ha, employing 35 people. He grinds the wheat in his own mill and sells it in Sukhbaatar and Darkhan. Since using quality seeds, sales of flour are smooth due to the relatively high gluten content of his wheat. He would like to procure additional wheat from other farmers, in order to keep his mill in operation all year round. Moreover, since livestock owners do not have any suppliers, he sees a market in the production of chaff.

As the agricultural sector in Selenge primarily produces wheat and potatoes, Mr. Jigjee, General Director of the Plant Science Agricultural Research and Training Institute (PSARTI) in Darkhan, calls for a shift in agriculture towards a more diversified range of cultures. These should include barley, oats, rape, and rye. More appropriate seeds are necessary for wheat production.
Numerous enterprises and co-operatives produce food products from flour (bread, pastries, noodles). Besides bread, there is a demand for Mongolian dough-noodles and egg-noodles as far away as Ulaanbaatar.

**Example of wheat processing in Darkhan**

The “Darkhan Chuus JSC” company employs 80 people and is the main producer of foodstuffs in Darkhan-Uul, including bread and pastries. The products are delivered by three trucks to over 80 shops and kiosks in Darkhan, Selenge and Ulaanbaatar. The company buys the necessary raw materials at the local market and tests them in the company’s laboratory. According to the vice-director of the enterprise, consumers are more demanding, have become more price-conscious and favour a differentiated product range. Additionally, consumers are more quality and health-oriented and also willing to pay more for the desired product.

Vegetable cultivation and processing

About 50% of the raw vegetables sold in Ulaanbaatar come from Selenge aimag, the rest from other aimags and from China. Local markets in Selenge and Darkhan-Uul already offer a broad range of raw vegetables, which are usually cultivated on small, irrigated plots of land (1-2 ha) and almost solely processed at household level in manual labour.
An increasing number of former livestock owners are trying to make an income with vegetable cultivation, having lost their herds during the recent zuds. Therefore, NGOs offered training sessions in the region to introduce vegetable growing techniques and to distribute books, tools, and complementary seeds.

Orkhon soum in Darkhan-Uul aimag has a tradition in cultivating vegetables. Most households are involved in this business and more than half of the 400 former employees of the vegetable conserving collective gained expertise through internships in Bulgaria. They own cellars where they store 20-30 t of vegetables for later sale and self-consumption. Small producers have difficulty due to lack of transport and are forced to sell their goods for lower prices to wholesale traders.

Example for vegetable cultivation in Orkhon

Mr. Sukhee, a vegetable farmer in Orkhon soum, sells 1kg of carrots for 80 to 100 MNT during the harvest, while in winter he can charge 200 MNT/kg. In Ulaanbaatar, 1 kg costs up to 600 MNT during the winter. Mr. Sukhee explains the difference with so-called `change agents´. He says it is almost impossible for a vegetable farmer to sell directly to shops and markets in Ulaanbaatar, since agents dominate the market and rake in the profit. Mr. Sukhee would like to expand his 2 ha of irrigated farm land and process more vegetables. Thus, he is interested in sharing a small processing facility with five other families.

Orkhon soum produced 5,000 t of vegetables in 2002, conserving 100,000 jars of salad, of which 70% were sold. An expansion of production is still possible since “An increasing number of Mongolians eat lots of vegetables”. However, according to the Governor of Zuunkharaa, Mr. Dungee, “people do not know what to do with the quantities of vegetables produced. They need possibilities to conserve the vegetables.”

Specific preconditions for the production and processing of agricultural products

- **Quality seeds** for grain and vegetable cultivation must be made available. An increase in the gluten content of wheat would make Mongolian flour more competitive.

- To avoid monocultures, exhaustion of soil, and minimize risks arising from bad harvests, a more **diversified range of crops** has to be cultivated.

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83 Interview with Mr. Jargal, head of the Orkhon soum parliament, on 16th September, 2003.
84 Interview on 18th September, 2003.
• Monitoring of wind patterns that blow away the upper soil is required. **Protective measures**, such as reforestation, need to be undertaken.

• Small vegetable farmers need to **organize** themselves in groups or cooperatives to process their harvest and gain direct access to sales markets in the major cities.

• **Irrigation and greenhouses** may be necessary to cultivate vegetables.

1.4.2 Production and processing of animal products

The two aimags host over 800,000 animals, 60 to 70% of which are sheep and goats. The meat is used for consumption in the region itself, in Ulaanbaatar, and for export to the Russian Federation. Sanitary measures and hygiene are the vital factors in exporting meat to the Russian Federation. China is not as yet a potential meat market, and as a result of current hygiene requirements, it would not be possible to transfer meat through China to other potential Asian markets. Dry meat could be a possible niche product on the meat market.\(^8^5\)

Mr. Jigjee, General Director of PSARTI in Darkhan, sees the present state of meadows as critical, a result of overgrazing: “Only weed”\(^8^6\). He demands that livestock owners be enabled to cultivate fodder and plants on their own. Apart from sound pasture management, they should engage in intensified livestock production by keeping animals in stables to increase meat and milk production. This would reduce the number of animals and simultaneously minimize the problem of overgrazing.

Meat production and processing

Apart from beef export to the Russian Federation, which is often hampered by erratic border closures, renewal of small units that were part of the previously state-owned pig and chicken farms could be an inviting prospect for the region. Chicken is almost exclusively imported at the moment, while an outbreak of pig disease destroyed the animals of most families.

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**A slaughterhouse in Darkhan**

The “BC Mongol Ltd.” slaughterhouse in Darkhan opened its doors in August 2003. The company employs 100 people, who process 300 cattle per day. The processing

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\(^{85}\) Interview with Mr. Henning Twesten on 9\(^{th}\) October, 2003.

\(^{86}\) Interview on 22\(^{nd}\) September, 2003.
and refrigeration equipment comes from China and is completely new. The animals are bought from ten different aimags and the meat exported to Russia. Side and waste products such as offal are sold, hides are processed in other companies in Darkhan, and the remaining bones are ground and used as chicken feed. A mill is also to start production in the near future, grinding 40 t of wheat daily. The chaff will be used to feed the company’s livestock. Moreover, a pig farm in the compound has been planned as a result of the growing market for pig meat in Russia.

Because herders sell their animals before the winter, Mongolian slaughterhouses can only work to capacity in autumn, thus providing seasonal jobs only. Slaughterhouses could partially increase their own livestock, but would still be dependent on animals from livestock owners. Furthermore, a drawback to processing meat all year round is the increase in electricity costs for refrigeration throughout the summer.  

87 Interview with Mr. Henning Twesten on 9th October, 2003.
Example of small-scale meat processing in Darkhan

One couple in Darkhan produces four different kinds of sausages. They sell about 200 kg of sausages daily and make 200 MNT profit per kg. They buy the meat at the local market in Darkhan, as well as Asian and German ingredients (fat and spices). They employ workers from the former Darkhan meat collective for the production, but are unable to meet the demand on national holidays. Both have participated in extra training to gain special knowledge about meat processing. For consumers and wholesale traders, the quality of the product and its packaging is crucial to the consumers and wholesale traders (a new label is currently being printed in Russia).

Milk production and milk processing

Besides milk for personal consumption and traditional processing to products such as arol, milk products are delivered to Ulaanbaatar. Milk imports from the Russian Federation indicate the possibility of substitution, if Mongolian milk could be processed and sold competitively.

Example of milk production in Selenge

Mr. Jargalsaikhan engages in intensified cow husbandry using six Russian cows (Alatau breed). He employs two people and has a contract with the local hospital to deliver 40 l of milk per day. During the summer he sells the milk for 150 MNT per litre and in winter for 400 MNT. With two workers, he produces the necessary fodder, and buys chaff and salt at the local market. As the ten milk-processing plants in Ulaanbaatar cannot meet the huge demand, making Russian milk imports necessary, he sees a good opportunity of expanding his farming business. According to him, intensified animal husbandry offers distinct advantages: permanent income, less risk, and lower labour intensity compared to nomadic animal husbandry. Since Mongolian cows produce only 2-3 l/day, he wants to either do the breeding himself or buy the appropriate breeds, such as Siemantal, Chartarlan, and Setschev. Finally, he is interested in processing and packaging his own milk, which would generate income for five more people.

Baruunkharaa soum delivers 370,000 l of milk annually to Ulaanbaatar. In addition, milk processing enterprises procure their milk in the soum. The latter plans to install a milk-processing facility next year. Between five and ten people will produce cheese, butter, and aaroon for sale in Darkhan and Ulaanbaatar.
Ms Damdinsuren opened the „Tavan od“ company in Darkhan in 1994. With her relatives and 3-5 employees, she produces yoghurt, kefir, and ice. She bought a used ice-making machine, and her yoghurt is packaged with a homemade packaging machine. She uses white plastic party cups as yoghurt containers, which are sealed with aluminium and plastic foil. She installed ten Chinese refrigerators to store her products. In the summer, up to 300 l of milk are delivered daily to her business. Wholesale traders and shops can buy her ice in bulk for 70 MNT a piece, and since her products only keep fresh for about 72 hours, she usually works on commission. Ms Damdinsuren has to keep reminding both the livestock owners and her suppliers that she can only process good quality milk; since they often break the cooling chain, she is unable to process the milk. Her business is seasonal, as there is no demand for ice in the winter and milk is not available. For her yoghurt production, she therefore substitutes milk powder for fresh milk.

Milk powder has potential as a product, as consumers prefer Mongolian to Russian or Chinese milk powder due to the high fat content. While local companies use the powder to produce e.g., kefir, ordinary people buy milk powder as a substitute for fresh milk in the winter. According to Mr. Jalbaa, owner of the “Shim” company in Sukhbaatar, the extension of milk powder production in the region would have a positive income effect for livestock owners, who should organize themselves in groups or small collectives and establish more efficient collection systems.88

Wool processing

The demand for felt articles, such as hats, jackets, sandals, insoles, and carpets has not been met. Interviewees engaged in felt production stated that they are producing more and more for the local market, and expressed their interest in expanding, either by employing more people or buying combing machines and small wool-washing facilities.

88 Interview on 17th September, 2003.
Hide processing

There are three hide-processing factories in Darkhan. The companies buy the skins all over the country, not only in Selenge or Darkhan-Uul. The quality of raw hides is a main concern of the leather factories. Although shoes can be produced from low-quality hides (e.g., with holes from insect bites), companies need good-quality leather to produce jackets and similar products.

Example of felt production in Sukhbaatar

Ms Sosor participated in a 10-day course in felt production in 2002. The Norwegian development agency NORAD provided a manual wool-combing machine after the training, but pays only a fixed rate for her felt products. Therefore, she prefers to work on commission for local people, who have a demand for felt insoles for leather boots and padding for camel-hair jackets. People are especially interested in fine wool products from sheep breeds like “Orkhon”. She sees a growing market for ger felts made of coarse wool, but setting up a business would require a tractor and access to a stream or river to soak the wool.

A hide processing factory in Darkhan

The director of Darkhan Minj Ltd., Mr. Batchuyag, buys 14,000 hides annually from different aimags through his agents. He can imagine procuring hides already processed up to wet-white (primary processing stage) provided the standard of hide-processing is good. Far more important than the price of the hides, is their quality. He would thus welcome any initiative of the herders to keep their livestock healthy, and to cut and dry the hides with great care.
He is also of the opinion that the quality of his products has improved considerably over the last three years. Since the design and marketing of the product has become more significant, he established a designer studio and assigned a service provider in Ulaanbaatar. There is also gradual tendency among Mongolians to buy individually manufactured leather articles on commission.

Honey production

Beekeeping has increasingly become a source of income in the region. The non-bank finance institution “Munch ariljaa” in Sharyn-Gol supports one beekeeper with credit to expand his business from 60 to 100 beehives. Apiculture currently produces 1 t of honey per year and provides employment for six people. Beekeepers in Sharyn-Gol, Orkhon, Shaamar, and other soums increasingly maintain their beehives in rape fields.

Example of honey production in Orkhon soum

Ms Oyunchimeg and her husband own 15 beehives. They harvest different kinds of honeys (berry, tree, rape, flower). Since the couple has no means of transport, they sell the honey to wholesale traders. Honey is not just bought according to taste, but also judged by the colour. Golden yellow honeys are sought after most. 1 kg of honey sells for 5,000 MNT, leaving the couple with a profit of 40 to 50,000 MNT per month after an average harvest of 100 kg a year. In view of the shortage in the supply of honey, Ms Oyunchimeg would like to expand her honey production by establishing a co-operative with other beekeepers nearby.
One of Mongolia’s largest honey-processing facilities, the “Mon-Api” company, operates in Selenge. The company has had success with unique honey products such as “dream essence”, which is of medical value and is exported to Asian and European markets.\(^\text{89}\)

Specific conditions for production and processing of animal products

- **Hygiene standards** must be fulfilled to secure and expand meat export markets.
- **Veterinary services and support**, possibly free of charge at first but eventually on a cost-effective basis, are required to prevent diseases and ensure high-class quality of material.
- **Fodder production** for (harsh) winters is needed; in the recent *zud*, many herds died because the new herdsmen were inexperienced and no fodder had been produced for the winter. To prevent this shortage, sufficient land has to be cultivated to produce grass and hay for the winter.
- The processing of milk and milk products requires a **basic technical infrastructure** (cooling chain, etc.) with appropriate technology.

1.4.3 Processing of wild fruits and plants

Countless wild berries, such as strawberries, gooseberries, and blueberries, grow in Selenge, particularly in the Zelter, Khuder, Bugant, and Zuunburen soums. Up to now, locals have picked the berries and either sold them immediately or at the markets in Sukhbaatar and Darkhan. They are mainly processed for personal consumption.

**A pharmaceutical enterprise in Sukhbaatar**

“Otgonast Pharm”, located in Sukhbaatar, is one of 23 licensed pharmaceutical enterprises in Mongolia. Delivering to wholesale traders and pharmacies in Darkhan, Erdenet and Ulaanbaatar, it achieved a turnover of 80 million MNT with 30 employees in 2002. The company processes local herbs, produces pills with Mongolian ingredients, and tablets using chemical elements. Up to 85% of processed fruits and herbs come from Selenge aimag. To obtain herbs, the company signs contracts with local people. The contractors are trained to pick and treat the herbs correctly, without damaging the plant. The owner, Mr. Gangaa, plans to cultivate the herbs, because he believes that cultivated herbs are more effective than wild ones.

\(^{89}\) See Gobi Regional Economic Growth Initiative 2003a:7.
Herbs and plants are picked, collected, and processed for their medical value: sea buckthorn heals wounds, leaving no scars, and has a high vitamin C content; Mongolians have a demand for rose hip because of its high vitamin C and carotin content; juice made from honey and the “five branch” herb has a healing effect on the stomach and intestines.

1.4.4 Processing of raw materials

Raw materials and side-products from mining (clay-rich soil, coal dust) are easily accessible and available in large quantities in the region. Unused facilities for producing construction materials are leftovers from the socialist era and can be converted. One example is the former ceramsit production site. According to Ms Tsevel, Director of the School of Technology in Darkhan, there is great demand for ceramsit as an insulating material.\(^90\)

In the socialist era, Darkhan-Uul was a production centre for construction materials. One of the privatized former collectives is the “EREL” cement plant, which employs up to 100 workers on a casual basis. Limestone is mined 7 km

\(^{90}\) Interview on 22\(^{nd}\) September, 2003.
away from the plant. The full production capacity of 185,000 t of portland cement per year is not used. The company covers 60% of the Mongolian market, and 30% of its output is used within the region.

Some entrepreneurs use the clay-rich soil and mining facilities in Selenge and Darkhan-Uul to press and burn bricks. The two brick-making facilities in Mandal soum produce 1,200,000 bricks annually altogether.

**Small-scale brick-making in Darkhan-Uul**

The “EDE” Ltd. brick works has been in operation since June 2003 and employs 12 people on a seasonal basis. The manufacturing works, built with elements from old Russian facilities, produces between 5,000 and 8,000 bricks per day. The material, clay-rich soil dug out from the neighbouring lignite mining company, is compressed, dried, and later burned. The bricks are transported via rail and truck, and sell predominantly in Ulaanbaatar for 60 MNT per brick. As a result of the large demand, possible expansion of the plant has already been discussed.
Provided that the forests of the eastern region of Selenge are used in a sustainable and careful manner, wood processing could be another option to provide jobs and a means of livelihood. Apart from a variety of formal and informal sawmills, there are several carpentry workshops in Darkhan for the production of furniture, ger scaffolds, etc.

Example of a small wood-processing company in Darkhan

Mr. Purev, a heating system technician, owns the “Olympus” carpentry business and employs six workers. Besides the production of furniture, he runs a wood-drying facility, since there is a constant demand for dry wood. According to him, the price for wood is increasing steadily due to tougher legislation to protect forests. Otherwise, selling dried wood and the furniture he makes is not a problem. One of his major obstacles is not being in possession of a licence to cut wood.

1.4.5 Tourism

Although the two aimags have a viable infrastructure, tourism is still underdeveloped. According to Mr. Zagdgochoo, head of the youth committee of the Democratic Party in Selenge, national tourism should therefore be supported. Since border traffic is a constant feature of Altanbulag, he envisions ger tourist camps in attractive landscape settings near Sukhbaatar, which would be open all year round, including electricity and road connections. Apart from a monastery in the western part of Selenge aimag, which is applying to UNESCO to be listed as world heritage, trips to the Baikal Lake in the Russian Federation could be attractive for international tourists.

1.4.6 Services

Co-operatives such as “Mungunnamiraa” in Zuunkharaa see economic potential in the revitalization of former collective service centres, which had been privatized and vanished in the course of transition. Centres could offer services such as sewing, hairdressing, and repairs, all of which are in constant demand. Apart from these ‘traditional’ services, the co-operative sees potential in production services, waste collection, hay-making, and the ploughing of vegetable gardens. Mr. Batbold, head of the co-operative, bought the privatized heating plant and the waterworks system in Khongor and employs 80 people in the provision of this service as well as in a construction facility. Although he renovated both facilities, he claims that people still pay low fees and that his profit is minimal.
Public transport in Darkhan and Sukhbaatar is provided by minibuses and private cars; there is no taxi service. Mr. Migdorj, head of „Munch ariljaa“, sees passenger and non-passenger transport services as a future business prospect, particularly in the light of the free trade zone planned for Altanbulag. In his opinion, not only do goods need to be transported to the zone, but there is also a growing demand for transport of the region’s raw materials and mineral resources.91

A service provider in Darkhan
Ms Dorjusren and her husband own the “Darkhan-Seregelen Ltd.” firm group, which consists of a printing house, a hotel, a restaurant, a carpentry workshop, and a retail shop. The group employs 60 people in Darkhan and 80 in Ulaanbaatar. They founded the “Munkhin useg” printing house in 1990, but as a result of growing competition from former employees and dependence on Chinese and Korean paper deliveries, they opened units in other business sectors. The hotel and restaurant “Ortoochin” was established in 1992 and offers 24 rooms for 50 to 60 guests. Availability of services in all price categories is a positive feature of the hotel. It is booked out to 50% on average. During summer, most of the guests are foreign tourists, while businessmen and sales agents predominate during the rest of the year. Ms Dorjusren sees fairs as a means of increasing her turnover, but also as a favourable opportunity of acquiring new product and business ideas.

1.5 General business conditions for most sectors and products

- **A stable energy supply** is required to operate mills, wool-washing facilities, facilities to process vegetables, or slaughterhouses. In the areas outside the aimag centres and the north-south axis of Selenge and Darkhan-Uul aimags, this must be regarded as a constraint.

- **Access to water** is needed for all processing facilities. Wool-washing facilities, slaughterhouses, and hide-processing companies use significant amounts of water. Recycling systems for renewable containers also depend on access to water. At the same time, safe and reliable sewage systems are mandatory.

- **(Re-)qualification** of staff is necessary for the production (quality of hides, etc.) and processing of raw materials, and the handling of modern production and processing equipment and techniques.

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- **Procurement and usage of appropriate technology.** Companies and collectives should be in a position to handle and repair their own facilities. Products for export and the global market may require high-tech equipment, but for small-scale home-based production, affordable (or second-hand) manual equipment might be more useful.

- **Breeding for quality** combined with a **reduced number of animals** and a **pasture management system** should be considered raising the standard of wool, hair\(^2\), meat, and the amount of milk production. Moreover, less animals and agreements among herders on the sustainable use of pastures should prevent further overgrazing.

- **A functioning collection system** for animal products is imperative for efficient inexpensive delivery to processing facilities, co-operatives, or merchants. Revitalization of the old collection system (pre-1990) with modified conditions might be possible. Under the old system, an agent was

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\(^2\) The increased thickness of cashmere can partly be explained by cross-breeding Gobi Gurvan Saikhan, Uuliin Bor, and other breeds during the socialist era (YONDONSAMBUU / ALTANTSETSEG 2003:4f.).
stationed at a collection point in each bag. The raw material was then transported to the next centre, where it was brought to the aimag centre and to Ulaanbaatar.

- **Storage facilities** are needed to ensure the processing of wool, hair, hides, milk, vegetables, and meat throughout the year. Wool-washing facilities as well as hide and milk processing plants could be used more effectively, so that employees would receive a monthly income instead of a seasonal one.

- Access to containers, jars and appropriate **packaging technologies** is crucial to placing products on the market. These could be procured in China or the Russian Federation. Another option is the installation of an extended collection and recycling system. The problem of washing, disinfecting, and sealing of used containers would have to be solved.

![Sale of used bottles in Darkhan](Image)

- Attractive and distinctive marketing is essential in gaining a local and supra-regional share of the market. Otgontenger Vodka produced by the “Bayalag Group” in Uliastay, with its eye-catching label and bottle, is a positive example.
• Matching quality (taste, etc.) and lower retail prices for Mongolian products (e.g., vegetable salads) are indispensable if imports are to be substituted. This also applies if Mongolian products are to gain a share of the regional market, not to mention find a place in the supermarket shelves of Mongolia’s central region.
2 Private and public institutions relevant to the promotion of economic entities and the regional economy

A supportive institutional environment for economic entities is developing in Mongolia slowly but surely. A growing number of private and public organizations provides essential financial and non-financial services to businesses, even in remote areas of the country. However, many of these service providers (see figure 7) are either in an early phase of development or in the process of restructuring and thus still need to define their missions, shape their profiles, develop innovative products, and improve their overall performance and customer orientation.

Figure 7: Service providers for economic entities in the two pilot regions

This chapter provides an overview of the current supply of business-related services in the two pilot regions and an assessment of the strengths, weaknesses, and customer-orientation of the institutions involved.

2.1 Business development service providers
There are various suppliers of non-financial business development services (BDS) for economic entities in the two pilot regions, in particular co-operative associations and branches of the Mongolian Chamber of Commerce and Industry (MCCI) and the Mongolian Employers’ Federation (MONEF). Zavkhan hosts seven different co-operative associations, while Darkhan-Uul has four and Selenge two. In Sukhbaatar, the centre of Selenge aimag, there is also a private BDS centre, which was established with the help of a TACIS programme in 1996. In addition, certain offices and public administration departments, such as the department of strategic planning and policy co-ordination, the employment office and the tax office provide services for economic entities. Furthermore, the Mongolian Co-operative Training and Information centre (MCTIC), with headquarters in Ulaanbaatar, is an important BDS provider.

2.1.1 The Mongolian Co-operative Training and Information Centre

The Mongolian Co-operative Training and Information Centre (MCTIC) - a non-governmental organization - was established in December 1998 with the goal of promoting and strengthening all co-operatives that put co-operative values and principles into practice. Nowadays, the MCTIC works as the sole co-operative institution in Mongolia that represents all seven national co-operative associations in the fields of industry (1), trade (1), agriculture (1), animal husbandry (1), production and services (1), and savings and credit (2).

Co-ordination of business actions and the development of co-operative policy documents are some of the activities of the centre. Furthermore, it provides different types of training for leaders, managers, and members of co-operatives, as well as assisting in the organization of training courses for people who are interested in forming new co-operatives, and providing publications and training materials. About 300 professional trainers work in Ulaanbaatar, in aimags and soums. A library and an information centre with access to the Internet are also available to all co-operative members. With the help of a GTZ project, a database was launched with detailed information on co-operatives in Mongolia and their supply of products and services. One vital achievement of MCTIC was the establishment of seven regional co-operative promotion and training centres, one of which is located in Uliastay. According to the MCTIC executive director, about 1,400 primary affiliates of the co-operative associations exist throughout Mongolia.

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93 For more information about the MCTIC, see their website: www.mongolia-coop.net.
2.1.2 Co-operative associations

The Production Co-operative Association in Zavkhan aimag is one example of a primary affiliate co-operative. The history of the association dates back to 1936, when a co-operative combining the fields of industry and trade was introduced. After privatization of the different member co-operatives, the association was (re-)founded in 1990. Today the association has about 240 members in six co-operatives and 120 independent economic entities. Training its members in topics relevant to the co-operative is the foremost activity of the association. The major part (80%) of their service earnings is used to finance the association.

The Trade and Consumer Co-operative Association in Darkhan-Uul was founded with 12 member co-operatives in 2002. Since then, eight more member co-operatives have joined the association. Its goals are to help the co-operatives to communicate among themselves, to provide them with consultancy services, and to offer training courses. Should staff members be unable to provide certain services and information demanded by the member co-operatives, the request is forwarded to the national co-operative association. At present, there is no membership fee, but if members wish to pay they are welcome to do so. Therefore, the association primarily finances itself with activities such as training courses for members and non-members. From the point of view of Ms Davakhhuu, an association staff member, there is still work to be done in supporting the establishment of new co-operatives in the region. The association works closely with the employment office, for instance, and informs the unemployed about the advantages of co-operatives. Another task that is gaining significance for the association as well as for membership co-operatives is the holding of trade fairs, where co-operatives can present themselves and their products to the public. One of the main challenges for the future is to become more professional and to organize similar events.

2.1.3 Chambers of Commerce and Industry (CCIs)

The CCI Zavkhan was founded in June 2003 with the aim of representing the interests of private economic entities in the aimag. Furthermore, the institution aspires to create favourable framework conditions for its 26 members. Member fees constitute 40% of the financial resources available to

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94 The term co-operative (in Mongolian khorshoo) was also used during the socialist era.
95 The individual fee for such a course is 20,000 MNT.
the CCI Zavkhan, while 50% comes from fees for services rendered. Additional earnings from various sources amount to 10% of the total financing.

The **CCI in Selenge** was established in November 2002. At the moment it has 26 members and three staff members working there. According to the president of the chamber, it is not difficult to attract new members but rather to exact the membership fee. A small library is also available to members. In co-operation with a small printing house, the CCI helped to produce the Yellow Pages for the region. The core services provided by the CCI are business consultancy and training on how to elaborate business plans. However, the main interests of the member companies lie in:

- access to (market relevant) information;
- knowledge of marketing and products;
- elaboration of a business plan;
- contact to foreign investors.

The **CCI Darkhan-Uul** began work in 1998. Of the 63 current members, the majority are small economic entities. Member fees make up most of the finances available to the Chamber. Another 40% of the financial resources result from training courses and other services provided. The core services of the CCI Darkhan-Uul for economic entities are:

- business information, services, and consultancy, including foreign experts and consultants invited by the chamber;
- accreditation of import and export products;
- issue of documents of origin for products;
- registration of patents and trademarks;
- organization of fairs and other events for economic entities.

The annual membership fee for economic entities for any of the three different branches of CCI vary between 50,000 and 150,000 MNT. Smaller economic entities and private individuals often pay less.

At the request of the CCI Darkhan-Uul and following the SWOT method, the organization was analysed together with six staff members. At the beginning of the meeting, strengths and weaknesses were identified by the participants.

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96 The CCI Selenge also offers consultancy to non-member companies, including start-ups, for a higher fee than member companies pay for such services.

97 Earnings include the money non-member companies pay for services made available to them.
Later on, solutions to overcome weak points were pointed out in the analysis of prospects and risks for the organization. The results are documented in annex 3 on page 177ff.

2.1.4 Branches of the Mongolian Employers’ Federation (MONEF)

The Zavkhan employers’ federation was founded in 1990; however, the goals of the association were clearly defined only eight years later. According to the vice president, the main goal of the association is to create jobs. At the moment, the federation has 42 members, independent individuals from cooperatives or businessmen from various-sized economic entities. The money available to the association comes exclusively from membership fees.

The Darkhan employers’ federation sees itself mainly as the representative of its member economic entities. The mission statement includes that economic entities represented by the employers’ federation have a stronger position in negotiations with trade unions, public administration, and government. The goals of the federation are:
• To raise the quality of the management skills of economic entity managers. For this purpose, the federation organizes (among other things) quarterly seminars free of charge, which are held by experts from Ulaanbaatar and elsewhere. The seminars have a variety of themes ranging from issues such as “Food Technology”, “How to write a business plan”, and “How to achieve solutions and make decisions in the management department” to “Management of staff”. The theme of the next seminar is “Regional Development”. Members can also suggest new themes. The seminars are also open to interested non-members of the federation.
• Punctual delivery of important information to members, which includes briefing them about laws and regulations, and supplying them with other relevant facts. To access all kinds of information, the federation uses the Internet as well as seminars, conferences, and congresses.
• Finally, the federation forwards ideas and suggestions of members to local authorities.

The federation works closely together with the employment office to coordinate the supply and demand of jobs. Moreover, it participates in a round table with the trade union and the Governor’s Office, where collective wage negotiations are held. The round table also serves as a meeting point to vote on employment promotion projects.

Another important activity of the federation is to award the prize for “Businessman of the Year”, an event that takes place annually and is organized by the federation in co-operation with the CCI, under the patronage of the governor.

The federation has 100 members, between 50 and 60 of which are considered ‘active’, meaning that they support the work of the federation, take part actively in seminars, always pay membership fees, and communicate with the federation (by letter or e-mail). About 25 members have access to the Internet. Members are state-owned economic entities, joint stock companies, and private economic entities. The size of member economic entities differs, some of them being small family economic entities, while others are large enterprises. Small economic entities do not have to pay membership fees. The federation supports them in the start-up phase and furthers their development. Results of a SWOT analysis of the organization are documented in annex 3.

2.1.5 Relevant departments of public administration
The department of strategic planning and policy implementation in the Governor’s Office in Zavkhan has, among other things, two funds at its disposal to support the development of the local and regional economy. One can be used to promote SMEs. The second one is intended for the creation of jobs, whereby the amount of money provided increases every year. The department mainly finances technical training courses and advanced educational courses for the unemployed, such as hairdressers, cooks, bakers, and dress-makers. Besides these courses, the department offers consultancy for start-ups, and computer and foreign language courses.

The employment office organizes two to three days training each month for graduates and the unemployed on the topic of setting up a business, often in co-operation with the trade supervisory board. Moreover, it provides free technical training and retraining in fields where participants can find jobs rapidly at the end of the course.

The tax office conducts free seminars on how to fill out a tax return form. Anyone who is interested, including economic entities, can take part in these seminars.

2.1.6 Customer orientation of the BDS providers surveyed

The providers’ view

Table 9 in annex 3 (page 182f.) gives an overview of the services provided by the institutions in Zavkhan aimag under review. Providers in Zavkhan repeatedly mentioned that the demand for non-financial services in the aimag had increased over the last years. They are of the opinion that more and more economic entities in the region have become aware of the fact that BDS can help to make them more competitive. According to the providers, economic entities contact them in particular to get information related specifically to their business or to a business they wish to start. This, however, is not always easy to respond to, especially in relation to up-to-date or very specific information. Providers said that they did their best but often faced difficulties themselves in gaining access to the relevant information. The head of the CCI in Zavkhan, for instance, reported: „Once somebody asked me about

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98 Service providers in Darkhan-Uul and Selenge aimag were not analysed in the context of the products they offer. It is assumed that they by and large provide the same services as the respective organizations in Zavkhan.
information concerning certain technology needed to process meat, but unfortunately I could not provide him with this information.\footnote{99}

The BDS providers are interested in providing more diverse and more qualified services to their members, but still face many obstacles. Most of the staff members criticize that they never had the opportunity of participating in training of trainer courses or similar events, which would increase their qualification and certainly help them in gaining access to information. In this context, representatives of BDS in Zavkhan expressed their immense interest in greater co-operation with other public and private service providers in Mongolia, as well as with institutions from abroad (for instance with the ICCI).

Representatives of the CCIs and employers’ federations visited in Darkhan-Uul and Selenge expressed the wish to have their work appreciated by more economic entities and to see recognition for the importance of such services for economic development. Service providers who have already established contacts with foreign institutions such as the CCI Darkhan would like to strengthen their co-operation; others expressed interest in establishing initial co-operation. Finally, the idea of introducing a business information centre and enabling economic entities to network are seen as viable options for future economic development in the region.

The customers’ view

Most of the surveyed economic entities in Zavkhan are aware of the existence of BDS providers and some have already made use of their services\footnote{100}. The majority of services demanded by economic entities were technical training, further education courses, consultancy in management skills, and the organization of fairs. In some cases, people were extremely satisfied with the services and even registered an impact.\footnote{101}

\footnote{99} Statement made during a workshop with BDS providers in Uliastay on 22nd August, 2003.
\footnote{100} Training had also been offered by other foreign organizations. In this context, both a NORAD and an ADB project were mentioned several times.
\footnote{101} Statements made during interviews in Uliastay on 20th August and 26th August, 2003.
In Uliastay and in many of the soums and bags visited, training measures of the GTZ project were positively acknowledged by the co-operatives interviewed. In other cases, people criticized the existing service providers and their offers. One businessman in Tossontsengel, for instance, commented that except for the ‘Business Times’ magazine, he saw no sense in the CCI or the employers’ federation.

Clients in Zavkhan aimag still feel the lack of certain services, which are either not available in the region or of low quality. Management training, computer, language, and marketing courses as well as information on specific production technology and the market are some of the examples mentioned in the

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102 The project implied is the “Organized Self-Help in Rural Areas”.

interviews. Some of the people interviewed were even prepared to pay for these services provided they were of good standard and beneficial to them. However, they also argued that services need to diversify if they are to match varying client demands. One person suggested establishing an independent consultancy and information centre, where economic entities and other interested parties could obtain specific information. People from the western region occasionally have to go to Ulaanbaatar to find the necessary services, but most of them cannot afford the trip, especially the managers and staff of smaller economic entities.

The picture in the Darkhan-Uul and Selenge aimags is similar. Many are aware of the BDS providers in the region. The work of the CCI in Darkhan, for instance, is well known from advertising leaflets, information from friends or through advertisements in the paper. Not all the economic entities visited made use of the services offered by BDS providers in the region. The reasons vary. Some find the services too expensive, especially smaller economic entities. Another reason is lack of information on the advantage to economic entities of becoming a member of such an organization and requesting their support.

A carpenter’s reason for not becoming a co-operative association member

“\text{I do not want to become a member of any co-operative association because so far I see no advantages in the organization and they would just charge me the membership fee.}”

However, most people interviewed in Darkhan-Uul aimag mentioned the work of the CCI and are satisfied with their services. Information about fairs, exhibitions and other issues relevant to the market, including the fairs and seminars organized by the CCI are perceived as extremely valuable.

Economic entities judge the quality of the services provided by co-operative associations differently: The manager of one of the leather-processing companies in Darkhan claimed to be an association member but was dissatisfied with their work, since they rarely visit or inform him; the head of another

105 Statement made during an interview in Darkhan on 15th September, 2003.
106 Statements made during interviews in Darkhan on 15th and 23rd September, 2003.
co-operative in Darkhan said that he appreciates the swift supply of information he gets from the Trade and Consumer Co-operative Association.

Many economic entities and other relevant stakeholders for regional development in Darkhan-Uul and Selenge, especially in bags and soums, requested further training measures to establish more co-operatives. The vice-governor of Orkhon soum said that ‘co-operatives and their advantages’ is a popular topic on the agenda of many citizens’ meetings in his soum. He furthermore thinks that good management skills are required to manage co-operatives properly. ¹⁰⁷ The head of the Khongor soum parliament shared this opinion and added that people need to recognize the advantage of co-operatives and to organize themselves. He thus wants to see more training in this field. ¹⁰⁸

When asked what kind of services they wished to have more of or still feel a lack of, economic entities and individual people from the aimags under review in the central region came up with the following suggestions:

- The processing industry above all needs more marketing and technical consultancy. Both are vital aspects in view of the constantly changing situation on the market.
- There is a lack of further education opportunities for workers. So far, the managers of economic entities have primarily benefited from training measures.
- Smaller entities emphasized the importance of basic information relevant to the market. One woman from a small food-processing company, for instance, wants to improve the labels on her products and needs advice on the matter.

The lack of consultancy for start-ups was emphasized in both pilot regions, where this particular target group would need extra consultancy of a specialized nature. Many start a business without adequate knowledge of the framework conditions for economic activities and simply copy what others are already doing. All in all, the significance of BDS is perceived as crucial by various representatives of economic entities, and in their opinion services should continue to be promoted.

¹⁰⁷ Statement made during an interview in Orkhon on 16th September, 2003.
2.2 Finance institutions

The Mongolian financial sector has improved tremendously in terms of diversity and outreach in recent years. Whereas in 1998, for instance, only some 20 savings and credit co-operatives and hardly any bank or non-bank finance institution were responsible for providing specialized micro-finance credit products, this number had reached 135, 15, and 34 respectively, by the end of 2001. Between 2000 and 2001 alone, the availability of bank services for rural borrowers increased by 760%, from less than 2 million to almost 14 million MNT.109

Finance institutions and their services represent a vital cornerstone in the environment of economic entities, which have a permanent demand for such activities, particularly with regard to loans. This survey, therefore, will focus on institutional finance110 and lending services.

2.2.1 Banks

The Khas and Khaan Banks have branches in the pilot regions, including Zavkhan. In the UNDP sub-sector review of micro-finance in Mongolia, they are praised as “two exemplary ice-breakers [...] in that they fit the profile of well-performing micro-finance institutions in terms of outreach and financial sustainability”.111 The Golomt Bank was chosen for this survey because it is reputed to offer a variety of business credits at good conditions.

The Khas Bank branch in Uliastay has a staff of 10 and serves about 2,000 customers. Apart from services such as saving, cash transfer, and leasing, the bank provides various types of loans for different groups of clients. Credit periods, although flexible to a certain extent, generally range between 1 and 12 months, and lending rates are usually between 3 and 4% per month. In 2002, the branch received 800 loan applications and approved around 700 of them (i.e., 87.5%).

109 See UNDP 2002:84.
110 Institutional finance comprises services provided by formal institutions (such as banks, non-bank financial institutions, and savings and credit co-operatives) as well as by semi-formal institutions, such as government programmes and NGOs (see UNDP 2002: 73). It does not include moneylenders, relatives or other ‘informal’ institutions. Pawnshops, although they “are provided for by the Civil Code, are licensed, pay taxes, and play an important role in providing easy access to financial services for the nation’s lower income” (UNDP 2002:85), were not surveyed in detail because their extremely short credit periods and high lending rates make them almost irrelevant for SMEs.
The **Khaan Bank** has branches in all *soums* of the *aimag*. The staff of 88 (20 in Uliastay) currently serves 16,285 clients in total. The bank is specialized in agriculture loans and has credit terms similar to those of the Khas Bank. In 2002, the Khaan Bank granted 4,985 from a total of 6,200 loan applications, i.e. 80.4%. Table 8 in annex 3 (page 181) gives an overview of the types of business credit offered by the two banks.

(To the right:) The Khaan Bank branch in Uliastay

The **Golomt Bank** has a branch in Darkhan and offers various business loans at virtually the same conditions as the two aforementioned banks. However, long-standing clients applying for loans of over 30 million MNT pay a lending rate of only 2.5% per month, with credit periods of up to 18 months or even longer. In addition, the Golomt Bank handles credit programmes of the government (Labour Office), ADB, and the World Bank. Under the Labour Office and ADB schemes, both of which require that investments be made in employment-generating production or service, monthly lending rates are 2.2% and credit periods can be extended to 24 or 30 months respectively. The World Bank scheme, offering long-term credits (36-84 months) at a lending rate of only 1% per month, is tailored for large enterprises.\(^{112}\)

\(^{112}\) According to the staff of the Golomt Bank, conditions for participation in this scheme make it uninteresting for SMEs: the credit amount goes up to 580 million MNT, the...
Beyond thorough examination of the quality of an applicant’s business plan, all banks surveyed demand extensive securities, particularly from first clients: they must not be indebted elsewhere; the various documents they submit must be consistent; their business or work place must be clear-cut and transparent; they must show evidence of sufficient collateral (especially immovable); and, at least in the case of the Khas Bank, must confirm entrepreneurial activity for more than six months prior to the application.

Examples for the rejection of loan applications by the Khas and Khaan Banks, given by bank personnel during a group discussion in Uliastay

“A meat producer from Tosontsengel wanted a loan for the construction of a warehouse. The problem was that he had already applied for credit to two other finance institutions”.

“One entrepreneur showed up with a well-thought out business plan for milk processing and already had the necessary equipment and buildings. The only problem was that he had heavy debts.”

“Somebody came to us and said he wanted to manufacture felt products (waistcoats, shoes and slippers, ger-felt). He had a lot of experience in this field and had won prizes at an exhibition in Ulaanbaatar. The problem was that he could not come up with sufficient collateral.”

2.2.2 Non-bank financial institutions (NBFIs)

According to the Civil Code of Mongolia, the Banking law and NBFI regulations, NBFIs are formed as limited liability companies that have to apply for a licence to the Mongol Bank, and are not allowed to mobilize deposits from the public. Two NBFIs were included in this survey: Undrakh and Credit Mongol.

Undrakh Ltd. is the only NBFI in Uliastay. The company was founded in October 2002 with the aim of becoming a bank with more knowledge of the local environment and the needs of local people than branches of Ulaanbaatar-based banks. In the long term, Undrakh intends to provide two kinds of business loans: short-term loans for traders with a high lending rate, and long-term loans for manufacturers at a lower rate. At present, the company is offering short-term loans to private individuals at 5% and to co-operatives at

applicant’s private assets have to be higher than the credit amount, and the credit itself covers at most 80% of the project costs.

2.5-2.8% per month in order to accelerate the capital stock required for bank operations.

Credit Mongol Ltd. was established with the support of TACIS and licensed as an NBFI in April 2000. The company offers two kinds of loans: (a) loans for basic assets with credit amounts between 500,000 and 25 million MNT and a credit period of up to 2 years; (b) loans for current assets with a credit period of between 3 months and 1 year.

Lending rates at Credit Mongol are 3% per month for repeated borrowers and 4% for first clients. Lower rates can be negotiated, provided the borrower has paid back previous loans on time. The Darkhan branch sends all loan applications to Ulaanbaatar for approval.

Two borrowers of Credit Mongol in Darkhan

Mr. Purev owns a small wood-processing plant and employs six workers. Apart from manufacturing doors and windows, he buys moist boards and dries them in his wood-dryer before selling them to other companies. He urgently needed a loan to buy raw material as long as prices were low. The short handling time of his application and acceptance of his limited collateral (two flats) were particularly important to him.

Ms Tsolmen is single and sells milk products (butter, curd, kefir), which she partly buys and partly processes herself. She has a refrigerator at home and a cold-storage room at her mother’s place in the countryside. She needed a loan for the purchase of raw milk and milk products. What she likes about NBFIs like Credit Mongol in comparison to banks is that credit periods are longer, fewer documents required, and instalments are more flexible.

2.2.3 Savings and credit co-operatives (SCCs)

Since the foundation of the first savings and loan co-operative in Mongolia in 1997, SCCs have been mushrooming throughout the country, even in remote areas. The passing of the Law on Savings and Credit Co-operatives by the Parliament in early 2003 has given an additional boost to the development of this institution.

114 The number has grown rapidly from 5 at the end of 1997 to 135 in 2002 (see UNDP 2002:94) and currently to about 400 (according to statistical data from GTZ Mongolia).
The office building of the “Darkhan Itgelt” Savings and Credit Co-operative

The table below shows some key features of the SCCs included in this survey.

**Table 3: Key features of the savings and credit co-operatives surveyed**

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>No. of staff</td>
<td>12</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>No. of members</td>
<td>320</td>
<td>22</td>
<td>58</td>
<td>38</td>
<td>120</td>
<td>108</td>
<td></td>
</tr>
<tr>
<td>Minimum deposit (MNT)</td>
<td>50,000</td>
<td>100,000</td>
<td>not answered</td>
<td>100,000</td>
<td>50,000</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Average interest on savings (p.m.)</td>
<td>2.75 %</td>
<td>1.5 %</td>
<td>not answered</td>
<td>1.35 %</td>
<td>2.25 %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average lending rate (p.m.)</td>
<td>5.0 %</td>
<td>4.0 %</td>
<td>5.0 %</td>
<td>2.5 %</td>
<td>4.4 %</td>
<td>5.5 %</td>
<td></td>
</tr>
<tr>
<td>Loan granting ratio</td>
<td>25 %</td>
<td>not asked</td>
<td>100 %</td>
<td>100 %</td>
<td>100 %</td>
<td>100 %</td>
<td></td>
</tr>
</tbody>
</table>

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According to verbal and written statements by SCC representatives.
At least 21 members are required to form an SCC. They have to pass a statute
in which they fix, among other issues, the minimum membership deposit,
decision-making procedures, and interest rates on savings and loans. SCCs are
not allowed to lend money to non-members. At the end of each year, they have
to pay income tax on their returns. They hold back part of the net profit
(usually 30%) and distribute the rest among their members.

Selected statements by representatives of four SCCs during a group discussion
in Uliastay

“Though this is not part of the statutes, SCCs are often formed by people of the
same professional background (administrative assistants, free entrepreneurs,
herders, doctors etc.). One advantage is being able to use members’ premises for
SCC meetings.”

“Individual motivation of applicants is an important condition for their admission to
the SCC.”

“Our aim is not to maximize profit but to distribute dividends among the members
at the end of each year.”

“Our lending rates may be as high as or even higher than those of banks, but in
contrast to them we finance attractive interest rates on savings from the returns.
Moreover, we grant loans unbureaucratically and are flexible regarding credit
periods. That is why people prefer us to banks”.

“As a member you learn a lot, especially how to manage savings and credit.”

2.2.4 Government programmes

The government of Mongolia funds a number of business credit schemes for
specific target groups, such as small enterprises or the unemployed, two of
which are implemented in the programme regions.

SME fund of the aimag governments

The Department of Strategic Planning and Policy Coordination in Zavkhan
disposes of a fund for the promotion of SME, which can be supplemented by
private donations and donor aid. The fund is disbursed in the form of loans,
with a credit period of between 2 and 6 months and a lending rate of 1-1.5%
per month. The department develops business plans with applicants and sends
the applications to the Ministry in Ulaanbaatar for approval.

The credit amount depends on the project. A loan of 100 million MNT for a
wool-washing plant in Uliastay, or promotion of a construction company in
manufacturing slabs and bricks for houses with a loan volume of 85 million MNT
are just two examples. 10% of the loan repayments can be used to top up the SME fund, 90% go to the general aimag budget.

Start-up promotion programme for the unemployed

The Labour Office of Darkhan-Uul implements a start-up credit programme for the unemployed via banks and NBFIs, e.g., “Munkh ariljaa Ltd.” in Sharyn-Gol. Loan applicants need to provide only very little collateral (for instance, a flat or patches) but have to invest in production, such as in an oven for baking bread, a car for transport services, or in sewing machines.

The Labour Office demands that the intermediary institution pay back the loans within a year at a monthly rate of 2.2%. “Munkh ariljaa”, in turn, passes the loans on to the target group at a monthly rate of 2.3% for a credit period of 8 months. The company is allowed to keep the profit but has to carry the risk of default by borrowers: “I received an application from somebody who wanted to start beekeeping. To be able to examine his business plan, I first had to acquire special knowledge about apiculture. Otherwise, if something goes wrong, the only thing I can do is to bring an action against the defaulter”.116

2.2.5 Non-government organizations (NGOs)

As of December 2001, there were over 2,400 non-government organizations (NGOs) registered in Mongolia, some 60 of them providing micro-finance services.117 One such organization is the Adventist Relief and Development Agency (ADRA), which has an office in Tossontsengel and operates in three of the Zavkhan soums.

Besides an education programme for children aged 9-15 years and a vegetable cultivation support programme for herders who lost their livestock during the zud, ADRA recently started a credit programme for groups of interested people about to start a business. These groups (of 15 participants each) are given courses on topics such as teamwork and business plan development. Participants pay 500 MNT for each session (24 in total). The money is used to establish the group’s capital stock. After successful completion of the training programme, each group can take out a 350,000 MNT loan from ADRA to introduce lending services to group members. The credit period is always 3 months, the lending rate 3.5% per month. After punctual repayment of the first loan, a group can receive progressive loans of 500,000, 750,000, 1 million, 1.25

116 Mr. Migdorj, Director of “Munkh ariljaa”, during an interview on 13th September, 2003.

million and 1.5 million MNT from ADRA. Loan management remains within the groups; mutual member control is expected to guarantee borrowers repaying on time.

2.2.6 Customer orientation of the finance institutions surveyed

All finance institutions under review offer business credits, and various types of economic entities, including individual business people, are among their clients (see table 4 on the following page). However, the demand of many entrepreneurs for medium and long-term loans (3-5 years) at reasonable interest rates (10-15% per annum) has for the most part been neglected up to now, and start-up entrepreneurs find it particularly hard to access loans:

- Credit periods range in most cases from between 3 and 12 months. Applicants are primarily business people who want to invest in current assets (raw materials, commodities, etc.), while investors in productive assets (equipments, buildings, technologies, etc.) remain largely unattended. Mr Sainkhuu, General Director of “Arig Trade Co. Ltd.” in Darkhan, for instance, said he would require a credit period of at least 3-4 years for his planned investment in a modern mill. Since loans of this kind are not available, he has decided to start saving.

- Only banks and the SME promotion programme of the aimag government offer medium-sized loans of over 30 million MNT, required for investments in certain plants and production technologies (e.g., medium-sized wool-washing plants, modern milk processing technologies).

- In the banks and SCCs under review, the net interest margins - i.e., the average lending rates minus the average interest on savings - are around 32% (±5%) per annum\(^{118}\). SCCs, however, distribute 70% of their income (after tax) among their members, which reduces the ‘net lending rate’ for SCC members to an estimated 15% per annum (or 1.25% per month).\(^{119}\)

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\(^{118}\) Banks, on the other hand, are allegedly overcautious about financial sustainability following the bank crash in the mid-90s. It should be considered, however, that bank lending rates decreased by 100% between 1998 and 2002 (see UNDP 2002:98) and a further decline can be expected.

\(^{119}\) This calculation is based on an assumed average income tax of 25%.
Table 4: Credit terms and clients of the finance institutions surveyed

<table>
<thead>
<tr>
<th>Institution</th>
<th>Credit period</th>
<th>Credit amount</th>
<th>Lending rate p.m.</th>
<th>Pre-conditions</th>
<th>Handling time</th>
<th>Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banks</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Uliastay:</td>
<td>1-12 months</td>
<td>100,000 - 60 mio. MNT</td>
<td>3-4% (partly lower under donor schemes and for long-standing clients)</td>
<td>extensive securities (consistent documents, sufficient collateral, proven experience, etc.)</td>
<td>long (especially for first clients)</td>
<td>all account holders; special offers for certain client groups (e.g., vegetable growers, herders, SME)</td>
</tr>
<tr>
<td>- Khas</td>
<td></td>
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<td></td>
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<tr>
<td>- Khaan Bank</td>
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<td></td>
</tr>
<tr>
<td>Darkhan:</td>
<td>3-12 months</td>
<td>500,000 - 25 mio. MNT</td>
<td>3-4% (flexible for long-standing clients)</td>
<td>less extensive securities</td>
<td>medium</td>
<td>members and non-members known to the staff</td>
</tr>
<tr>
<td>- Golomt Bank</td>
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<tr>
<td>- TDB²</td>
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<tr>
<td><strong>NBFI</strong></td>
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<tr>
<td>Undrakh Ltd., Uliastay</td>
<td>3-6 months</td>
<td>not fixed (depending on capital stock)</td>
<td>5% for individuals, 2.5-2.8% for cooperatives</td>
<td>less extensive securities</td>
<td>medium</td>
<td>everybody (private individuals and entrepreneurs)</td>
</tr>
<tr>
<td>Credit Mongol Ltd., Darkhan</td>
<td>3-12 months (partly longer)</td>
<td>500,000 - 25 mio. MNT</td>
<td>3-4% (flexible for long-standing clients)</td>
<td>less extensive securities</td>
<td>medium</td>
<td>members</td>
</tr>
<tr>
<td><strong>SCCs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Various in Darkhan and Zavkhan</td>
<td>1-3 months, partly longer</td>
<td>usually 5 times the individual deposit</td>
<td>2.5-5.5% membership</td>
<td>short</td>
<td>members</td>
<td></td>
</tr>
<tr>
<td><strong>Government schemes</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour Office, Darkhan-Uul³</td>
<td>1 year (8 months)</td>
<td>max. 3 mio. MNT</td>
<td>2.2 (2.3%)</td>
<td>minor collateral (flat, patches)</td>
<td>short</td>
<td>unemployed</td>
</tr>
<tr>
<td>Strategic Planning Dptm., Zavkhan</td>
<td>2-6 months</td>
<td>not fixed, depending on project</td>
<td>1-1.5%</td>
<td>extensive securities</td>
<td>very long (applications to UB)</td>
<td>SMEs, cooperatives</td>
</tr>
<tr>
<td><strong>NGO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADRA, Tossontsengel, Telmen</td>
<td>3 months</td>
<td>350,000 - 1.5 mio. MNT (progressive)</td>
<td>3.5% participation in training, “best business idea”</td>
<td>short</td>
<td>group members</td>
<td></td>
</tr>
</tbody>
</table>

¹ Rough estimate: long - 2-3 weeks; medium - 1 week; short - up to 3 days.
² This information was obtained from a leaflet and not directly.
³ This programme is implemented through NBFI like “Munkh ariljaa Ltd.” in Sharyn-Gol.
Most financial institutions require extensive securities from loan applicants. The only doors that are open to people with minor collateral are those of the SCCs and NGOs such as ADRA. Still, minimum membership deposits of 50,000 or 100,000 MNT, as is common in many SCCs, constitute a barrier for young people.

The handling time of loan applications is longer in banks and under certain government schemes than in non-bank, non-governmental financial institutions. SCCs hold an exceptional position in this regard, as their procedures for handling applications as a rule involve less bureaucracy.\textsuperscript{120}

In this context, it is important to emphasize the huge differences in transaction costs - paid by both creditors and borrowers - between the various financial institutions. Here, local institutions such as SCCs, whose transactions are largely based on ownership, membership, and mutual trust, have a tremendous advantage over institutions such as banks, which are less rooted in the local environment and whose transactions are largely based on formal rules and regulations. Transaction costs in banks have a considerable impact on credit terms: long-standing clients who have proved reliable, for instance, can negotiate lower lending rates, a flexible instalment regime, extended credit periods, and receive loans at much shorter notice than others.

2.3 Public administration

All economic entities in Mongolia are obliged to register with three public administration departments before starting up their business: the trade supervisory board, the tax office and the insurance department. Additionally, entrepreneurs can consult the employment office if they need a work force.

2.3.1 Trade supervisory board

Economic entities must obtain permission from the trade supervisory board before commencing activities. Permission is granted once an officer has inspected and approved the quality and standard of the products and services to be offered. The board in Uliastay uses three laboratories to analyse product quality: a chemical and a bacteriological laboratory and one that examines toxic substances. Furthermore, the trade supervisory board controls whether

\textsuperscript{120} In this respect, however, pawnshops are unbeatable. The time span between loan application and handing-over of money is less than 1 hour, and the only collateral required is the pawn. This certainly makes pawnshops attractive for e.g., business people that are in urgent need of inputs.
economic entities fulfil the conditions imposed, e.g., hygiene, security, environmental compatibility, health and safety measures at the workplace. Thirty-six inspectors are employed in this context in Uliastay, half of whom are specialists and the other half financial inspectors (e.g., to check balances). According to the head of the trade supervisory board in Darkhan, small enterprises and some of their branches are checked swiftly, whereas other businesses, such as those in the production of spirits, undergo more strict examination. In these cases, the governor calls for a professional examination commission. His final decision on permits is based on the commission’s results. Activities that could threaten state security or the environment require permission from the Ministry in Ulaanbaatar.

2.3.2 Tax office

Newly-established economic entities have to register at the tax office; without official registration, they are not allowed to become active. After registration they are obliged to present a monthly or quarterly tax return at the tax office. In total, economic entities have to pay more than twenty different kinds of tax. Income tax is collected in two categories: economic entities with an annual profit of less than 100 million MNT pay 15% tax, while those in excess of this profit are taxed by 40%. The head of the insurance department in Darkhan stated that in reality enterprises, large or small, have difficulty in paying the social security contributions incurred. Many of them merely sink deeper and deeper in debt to the insurance department. However, instead of closing the economic entity, the court is called upon.

2.3.3 Insurance department

Businesses must also register at the insurance department, listing the total amount of wages paid and the number of employees. According to these figures the department calculates the amount of social insurance to be paid by the employer and the employee. While the former has to pay 19% of the amount, the employee pays 10%. Businesses are required to draw up a balance sheet at the end of the month and present it to the insurance department. Should there be an alteration in the total sum of wages paid, the tax amount is recalculated. An economic entity involving a single individual does not have to pay social insurance.
2.3.4 Employment office

The principal activity of the employment offices in Zavkhan and Darkhan is to find work for the unemployed and deal with entrepreneur requests for workers. The office is currently revising the database that registers the unemployed and those who have just lost their jobs. The data includes information on the profession, education and age of those seeking employment and is the main source of information for entrepreneurs in search of employees. If the employment office cannot find the required work force placements for the economic entity in question, it publishes advertisements in the media or consults employment offices in other aimags, to whom it is linked.

2.3.5 Department for natural conservation

The department for natural conservation is subordinate to the national Ministry of Environment. While the Ministry decides on legal restraints and regulations to protect the environment, the department for natural conservation controls whether the economic entities observe these legal regulations. For example, every economic entity is legally obligated to afforest if it is felling trees. Therefore, an agreement on reforestation is concluded between the economic entities and the department. Only the Ministry can permit the commercial use of natural resources such as mining and felling whereas the department can allow the private use of trees as heating material.

2.3.6 Customer orientation at the public administration departments surveyed

Registration and licensing procedures produce transaction costs for economic entities. It can be assumed that these costs would reduce if public administration had improved customer orientation, as, for example, shortening the amount of time spent on licensing and registration procedures. The majority of public officials from Zavkhan and Darkhan understand what transaction costs are and realize that economic entities have to deal with a considerable number of them; however, they claim that the necessary procedures run smoothly. One staff member at the trade supervisory board claimed that the duration of a licensing procedure depended on how fast the economic entity was able to provide the necessary documents: “If everything is done in a proper way and

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121 Public officials from Zavkhan and Darkhan were asked if they knew what transactions costs are. They mentioned activities such as applying for a permit at the trade supervisory board, registering at the tax and patent offices and consultations on taxes and laws.
complete, we do not need much time." The insurance department also assured the rapid clearing of registration and calculation. Delays in permission were caused by the ministry, since it was the only ministry responsible for these matters. Although public administration staff appreciate the significance of reduced transaction costs, they did not acknowledge any discrepancy with regard to the amount claimed. Moreover, they assessed their services as being almost one hundred percent satisfactory. Administrative assistants and entrepreneurs were asked to evaluate the customer orientation of public administration on a scale between 0 and 10 (see figure 8).

Figure 8: Customer orientation of public administration as seen by staff and entrepreneurs in Zavkhan and Darkhan-Uul

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Degree of agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy accessibility</td>
<td></td>
</tr>
<tr>
<td>Qualified counselling</td>
<td></td>
</tr>
<tr>
<td>Good understanding of the clients' problems</td>
<td></td>
</tr>
<tr>
<td>Friendliness / courtesy</td>
<td></td>
</tr>
<tr>
<td>Good comprehensibility of forms / answers</td>
<td></td>
</tr>
<tr>
<td>Fast processing of e.g. applications</td>
<td></td>
</tr>
<tr>
<td>Sufficient explanation of delays</td>
<td></td>
</tr>
<tr>
<td>Timely information on delays</td>
<td></td>
</tr>
<tr>
<td>Sufficient grounds for decisions</td>
<td></td>
</tr>
</tbody>
</table>

Public officials agreed almost entirely with the criteria mentioned in the questions. Those from Darkhan, however, were a little more self-critical than their colleagues from Zavkhan, assessing the fulfilment of criteria such as “friendly / courteous staff” and “understanding of clients' problems” less positively. This corresponds with the entrepreneur point of view. Entrepreneurs from Darkhan were more inclined to agree with the above criteria than entrepreneurs in Zavkhan. The latter particularly criticized the long processing of applications, and the slow and inadequate explanations of the delays. In
individual interviews, however, entrepreneurs were less harsh in their criticism. Statements they made about their relations with the public administration often varied, especially between small and large economic entities. Smaller entities claimed more often that they had had some difficulty in getting a permit.

Large economic entities seldom had problems with inspections or presentation of the required documents: “Yes, there are many licenses and inspections but we have no problems with the public administration, because we submit the necessary and valid documents and act in rule.”\textsuperscript{122} Some said that the problems they had had were so small as not to be worth mentioning, while others did not want to talk about the matter to foreigners.

\begin{table}[h]
\centering
\begin{tabular}{|l|}
\hline
Comments on licensing procedures by the owner of a sausage company in Darkhan \\
\hline
“To start our business we needed permission for the production place, for the production itself, and in the end for our products. The hygiene inspector of the governor’s office is responsible for us. He advises us on how the production area should be equipped. After we had done everything he wanted us to do, we called him for inspection. He told us what was missing and we carried out the necessary improvements. Finally he gave us the permission. The total procedure lasted no longer than ten days. We had informed ourselves quite well beforehand and were able to present the necessary documents. But we think it will not be that easy for newcomers. We heard that they [meant: the officials] no longer permit companies with manual machines. When we started, there was no restriction because there were not so many sausage companies.” \hline
\end{tabular}
\end{table}

In Darkhan and Selenge, entrepreneurs mentioned several cases of corruption in connection with the public administration. Inspectors of the trade supervisory board used to accept bribes to issue permits. The founder of one new business said he had not received a permit to produce spirits because he was not prepared to pay a bribe. In another case, a veterinary practitioner stated that when he was setting up his business, he needed more than a “thousand signatures” to get permission for the location. In the end he paid a bribe, knowing that it would otherwise have taken even longer. “For this you have to take the public officials out for dinner. Some of them directly tell how

\textsuperscript{122} Interview in Darkhan on 9\textsuperscript{th} September, 2003.
much money they would like to have. Such a bribe is about 50,000 to 100,000 MNT.\textsuperscript{123}

However, the majority of entrepreneurs stated that co-operation with the public administration had been simplified over the past few years and that proceedings are now easier. A few years ago, there were more than 300 different kinds of permission, 60 of which have survived up to the present.

2.3.7 Current measures and proposals to improve co-operation and services

First steps have already been taken to improve public services for economic entities and co-operation between the private and public sector:

- The National Chamber of Commerce and Industry in Ulaanbaatar now asks economic entities about their problems with public administration. The results of the inquiry will be considered for the next legislative process and should influence legislation with regard to better relations.

- To improve co-operation at \textit{aimag} level, the CCI Selenge proposed introducing a committee composed of economic entities and administration representatives, who would meet regularly. The proposal has been accepted by the \textit{aimag} government and the first meeting was to take place in October 2003. The committee will consist in equal part of CCI members and public officials. The director of the CCI and the governor have also signed a “contract” for co-operation.

- Administrative assistants also made proposals on cost-cutting measure for permission procedures. Proceedings could be accelerated, on the one hand, if the entrepreneurs were more qualified and, on the other side, existing laboratory equipment would have to be improved. The available equipment is dated and prolongs the examination process.

- Another suggestion made in Zavkhan was to establish a ‘One-stop-agency’ in the public administration, where customers can obtain all relevant information and forms and, if necessary, counselling. This type of service already exists in some districts of Ulaanbaatar.

\textsuperscript{123} Interview in Darkhan on 23\textsuperscript{rd} September, 2003.
3 Information, educational and vocational training

“Education and capacity building are crucial preconditions for sustainable economic development of the aimag.”124 During the field study, it became apparent that lack of information and the largely poor quality of educational and vocational training are core constraints for social, economical and political development in the pilot regions.

3.1 Information

The following results concentrate on the situation in the aimag centres. It should be noted that people in the cities of Uliastay, Darkhan and Sukhbaatar have greater access to information than those living in rural areas. In general, people living in remote places, such as herders, are excluded from most information. Moreover, even radio broadcasts, often seen as an appropriate information medium for rural people, only convey relevant information to a certain extent.125

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124 Statement by a participant of the final workshop in Uliastay on 2nd September, 2003.
125 See BARKMANN 2003:59.
3.1.1 Access to information in Zavkhan

The majority of people interviewed mentioned that the lack of access to information in all areas is a key problem in the development of Zavkhan and its inhabitants.

Reasons for lack of information

Members of the youth association in Uliastay explained some of the reasons for the lack of information:

- Zavkhan has no daily paper, since it does not have a printer. Until recently a computer printer was used to produce the ‘Zavkhan News’, a local four-page newspaper. 800 subscribers bought a copy at 200 MNT per paper. Publication had to stop as a result of excessive printing costs. At the moment there is only one newspaper available (more of a magazine), which comes out every 20 days and is printed in Ulaanbaatar. Young people said they had no money to purchase an appropriate printing press to print a regional newspaper with the latest news. A suitable machine would cost 2,000 to 2,500 USD.

- The transmitter at the regional television station has been out of operation since December 2002. This has meant being cut off from a chief source of information for the local population. Apart from regional news, the station used to broadcast further education programmes e.g., how to cultivate vegetables, how to comb cashmere correctly, and foreign language courses. Other programmes encouraged people to think and participate. During the transmission of chess games, for instance, viewers had to find solutions by themselves and had the opportunity of winning a prize. Children got homework and were presented with the answers later on. According to a freelance journalist, Mongolian state television’s first programme broadcasts only 30 minutes of regional news per week.

- Mr. Ganbold, former Vice-Governor of Zavkhan aimag, operates a private television station (UL Televis, locally known as ‘channel 12’). It transmits a mixed programme on Wednesdays, which is repeated on Thursdays from 8 p.m onwards. Films are shown at weekends. To broadcast programmes of a higher standard, he would need experts (e.g., special correspondents) and

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126 During a workshop in Uliastay on 20th August, 2003.
127 “The citizens of Zavkhan only receive the first programme of the Mongolian state-owned television which is in firm hand by the MRVP” (BARKMANN 2003:58).
more reliable technology. The storage battery of his camera does not work at the moment, so that he cannot film outdoors.\textsuperscript{128}

- The regional radio station FM 102.5 has also been out of operation for a year. The 2,000 USD required to repair the transmitter is not available.

- At the moment, citizens can only access the Internet at the post office in Uliastay. The Internet is connected via a server based in Ulaanbaatar, and the connection is not only slow, but expensive (long-distance calls). Only 10 Mongolian families have their own computer, which limits private Internet use.

- There is one public library. A comment on the standard of the library cannot be made, since it was not visited.\textsuperscript{129}

\textsuperscript{128} Interview in Uliastay on 31\textsuperscript{st} August, 2003.

\textsuperscript{129} There is also no book trade in Zavkhan (see BARKMANN 2003:58).
Access to economically relevant information

The majority of the entrepreneurs interviewed in Zavkhan complained of a severe shortage of economically relevant information, which was mainly attributed to the situation described above. They lack information on the domestic and international market situation, specific production technologies, production standards (quality, hygiene), demand, sales and prices, marketing, and management. Local entrepreneurs are not well informed about the opportunities and resources they could tap as members of an association or by availing of the services of a BDS provider. In particular, start-up entrepreneurs are not aware of their prospects.

Suggestions by local stakeholders to improve people’s access to information in Zavkhan aimag

Local stakeholders proposed a variety of measures to overcome the general lack of information, on the one hand, and to provide economic entities with economically relevant information on the other. Improving access to information was unanimously seen as a field to which the new GTZ-supported programme could contribute.

• Connection to the Internet should be extended. First of all, however, many locals would need computer and foreign language courses to be able to use the Internet.

• Regional and local media (newspaper, television, radio) should be put in operation again. Television could serve as training, since the demand for educational programmes (e.g., English courses) is high as a result of a large number of pupils in Zavkhan aimag. In Uliastay, access to educational programmes would be guaranteed for a large section of the population, as 4,300 households own a television set. Local stakeholders emphasized that, according to a market analysis, a newspaper would be profitable. Two unemployed journalists would like to work on a new newspaper.

• One local stakeholder mentioned that a considerable amount of information exists about Zavkhan aimag. “Intellectuals living in Ulaanbaatar who immigrated from Zavkhan have written many books and studies. The biggest problem is that a large part of the population does not have access to this information.” For this reason he proposed the establishment of a versatile information centre, offering a wide range of services and advice. Some of these services should cost something to attach value to them. The information centre could be integrated into the existing co-operative training centre in Uliastay.
3.1.2 Access to information in Darkhan-Uul and Selenge

Compared to Zavkhan aimag, access to information seems easier in Darkhan-Uul and Selenge. Apart from daily newspapers, all the relevant media for information exist in the aimag centres Darkhan and Sukhbaatar.

Relevant information media in Darkhan and Sukhbaatar

In New-Darkhan, citizens have at least two possibilities of accessing the Internet: either at the post office or with a private provider located in the same building. The connection at the post office is quite slow, whereas the private provider offers a rapid connection. He charges 790 MNT per hour. The number of private households with Internet access has not been identified. In Sukhbaatar, the only possibility of using the Internet is at the local post office. According to the director of the CCI Selenge, the connection is slow because it cannot avail of the existing fibreglass cable owned by the Mongolian railway. A connection to the cable would cost around 2,000 USD per month.

The book trade in Darkhan is negligible, daily newspapers cannot be bought and people only buy gutter press magazines (“Noztoj Medee”). The “Darkhan Seregelen Ltd.” publishing house was founded as early as 1990 and initially had a monopoly on the printing sector. In the meantime former members of staff have opened eight more publishing houses, promoting competition in the sector. The owner of the company said that they do not print newspapers because it would require a huge printing press.

In both aimags, it was observed that more private households received television channels via cable and satellite in the centres of Darkhan and Sukhbaatar than in Zavkhan. “Apparently some citizens regret that the alternative TV channel ‘Eagle TV’ had to stop its activities”. Orkhon soum (Selenge aimag) has a regional television station.

Access to economically relevant information

The various information media mentioned above, the proximity to Ulaanbaatar, and the good infrastructure make it easier for entrepreneurs in Darkhan-Uul and Selenge to get hold of economically relevant information. The majority of those interviewed inform themselves via the Internet (e.g., about exhibitions, trades), the newspaper, and books. Some also mentioned Russian media (e.g.,

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130 BARKMANN 2003:58.
131 BARKMANN 2003:58.
newspapers, television, and the Internet) and trips to Russia as information sources. In many cases, friends and relatives constitute an important information medium. Some entrepreneurs said that they had used services provided by the CCI, while others had only heard of the CCI but not enlisted their services or become members. People rarely mentioned associations as a source of information.

Even though access to general information is better in Darkhan-Uul and Selenge than in Zavkhan, entrepreneurs still face difficulties in getting specific information related to their economic entity. The owner of a sausage company said that once they had decided to buy new machines for processing, information had played an important role.132

Example of difficult access to economically relevant information, given by a sausage company in Darkhan

“It took us almost a year to find the sausage-producing machine. We searched in the Internet and in catalogues. We even asked our competitor, who was not willing to tell us where he bought his machines. Finally, a good friend of ours gave us an address in Irkutsk where we purchased it. Later on we found out that our competitor had also bought his machines there.”

Suggestions by local stakeholders to improve people’s access to information in Darkhan and Selenge

In Darkhan, people did not come up with recommendations on how to deal with the general lack of information. However, the CCI Darkhan made some concrete proposals on how to amend the exchange of information between local entrepreneurs and how to make economically relevant information available to them. An information network should be established allowing all local stakeholders, including individual citizens, entrepreneurs, BDS providers, public administration and other institutions, to exchange information. Additionally, the CCI Darkhan plans to establish a database with economically relevant information.

In Selenge, the director of the CCI has worked out a business plan to establish an Internet server in Sukhbaatar, which will be connected to the above-mentioned fibreglass cable.

132 During the interview it became clear that the company had a genuine competitive disadvantage due to the long hunt for information. Its competitor was able to use this time to begin new production and gain a bigger share of the market.
3.2 Educational and vocational training

Educational and research institutions displaying diversity and high standards play a significantly positive role in improving the economic development potential of a region. Along with the general transformation process of the country, the educational sector is in a state of permanent adjustment to the new market situation. Furthermore, this process leaves many educational institutions without further financial support from central government.

3.2.1 Educational and vocational training in Zavkhan

Although many interviewees and workshop participants stressed that “Zavkhans [people from the aimag] have an extraordinary intellectual potential”, the educational situation appears to be one of the major problems in the region. In various interviews with different stakeholders, it turned out that education in the aimag, in particular vocational training and technical education, lacks quality and often does not meet the demands of economic entities.

Statements on the quality of education in Zavkhan

“Graduates from the economics school by no means have the qualification people had some years ago. I could not give them a job in my company because of the poor quality of the education.”

“There is only one economics college in Uliastay. With the kind of diploma you get there, you can apply nowhere except in Zavkhan.”

“Telmen soum has problems because many people, especially the young, are without a qualified education.”

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133 Interview in Sukhbaatar on 16th September, 2003.
134 Statements made by representatives from different economic entities during interviews and workshops in Zavkhan aimag between 18th August and 3rd September, 2003.
“There are branches of the Mongolian University for arts, economics and languages but there are no technical colleges or universities. Our aimag suffers from a huge lack of highly skilled workers.”

Uliastay hosts three branches of Mongolian State University (arts, languages and economics) and also has a long tradition of training students in various professions. No other soums in the aimag, not even those that are densely populated such as Tossontsengel, have colleges or vocational schools.

In order to grasp the kind of obstacles and problems educational institutions have to deal with, two relevant schools were visited, the Vocational and Production School and the Economics College in Uliastay.

Vocational and Production School in Uliastay

The school trains in 11 different trade branches: electrician, carpenter, welder, shoemaker, photographer, car mechanic, cook, bricklayer, dress-maker, and hairdresser; a year ago, as a result of the huge demand and reasonable opportunity of finding jobs, the school also began training farmers in the field of management, vegetable cultivation, and animal husbandry. According to the school director, graduates from these branches currently have the best chances on the regional market.

Nevertheless, teachers at the school admitted that their education lacks quality. One reason is that students do not get sufficient practical experience. The school has little opportunity of working with economic entities. A few positive examples are the sewing, hairdressing, and construction branches, which allow some of the students to acquire practical know-how. In other cases, students learn at old plants available in the school (from the 60s or 70s), which urgently need to be replaced. Another reason is that the school does not have enough rooms for student instruction. If these two conditions were improved, the teachers argued, the standard of education would be higher and likewise the opportunities of finding a good job or working independently.
The school trains 500 students altogether, 70% of which are girls. Every year, 200 students register and roughly 100 graduate from the school. Although registration is free, the number of students has declined in recent years. The school director sees several reasons for this development.

- Many people think that the degree obtained from a university is better than that of a vocational school.
- At the same time, the government has neglected to arouse interest in vocational schools.
- Furthermore, job opportunities are not available for students who graduate from vocational schools.

If the market situation and the demand for new professions were to change, the school would be willing to adjust. However, the director added that new buildings, new work rooms, and plants would be necessary.

Economics College in Uliastay

The economics college in Uliastay is so far the only state college of its kind to offer a complex economic education in the western region. About 40% of the students come from Zavkhan and 60% from other aimags of the western region. Approximately 600 students can decide between seven different majors:
finance, business management, bank management, marketing, accounting, trade management, and banking. After four years they can obtain a degree. The college employs 32 teachers and professors from different educational backgrounds. None of the teaching staff has practical experience and few teachers had the opportunity to study abroad.

The Economics College in Uliastay

Generally, students are satisfied with the teaching staff and appreciate the help they offer students in all respects. In particular, they feel that teachers care about their welfare. However, both the principal and the students complained that many of the better teachers abandon the region and go to Ulaanbaatar, where they can earn more money. One teacher who has worked in the college for the past nine years said that she now earns 70,000 MNT per month. For a similar position in Ulaanbaatar, she would get 150,000 MNT.135

College students also criticized the poor standard of English lessons. Currently there are five Mongolian English teachers (hardly any of them has studied in an English speaking country) and one from the United States (a Peace Corps volunteer). English courses are only included in the first two years of study.

135 Statement made during an interview in Uliastay on 1st September, 2003.
Students and teachers expressed their desire to establish an exchange programme with other Mongolian and foreign colleges and universities, which would be open to students and teaching staff alike.

Difficult access to basic information and up-to-date teaching is another problem students and teachers encounter. The college does not have access to the Internet, many books available in the college library are written in English and therefore of limited use, and due to restricted financial resources, it is almost impossible to expand the supply of teaching material.\textsuperscript{136} Financial problems are also the reason why the college cannot pay for advanced education measures for its teaching staff. If teachers want to attend courses, they have to shoulder the expense themselves, including e.g., transport to Ulaanbaatar, where these courses are offered.

3.2.2 Educational and vocational training in Darkhan-Uul and Selenge

Due to the presence of a large number of schools and institutions of higher education, particularly in Darkhan, the northern part of the central region has a more advantageous starting position than Zavkhan. Locals and entrepreneurs from Darkhan-Uul and the surrounding soums did not complain about a lack of good education. Entrepreneurs confirmed that Darkhan-Uul had enough skilled workers and that their employees had good qualifications. However, some admitted that the qualification of employees had not been decisive for their choice in employing them, since staff are trained on the job. There are no technical colleges of higher education or universities in Selenge. There are only two vocational schools, one for agriculture in Shamaar and one for forestry in Sukhbaatar, whereby the latter does not have a good reputation.\textsuperscript{137} It can be assumed, however, that Selenge benefits from its proximity to Darkhan.

To enable a comparison of the educational situation in the two pilot regions, three educational institutions in Darkhan-Uul and Selenge were visited, and will

\textsuperscript{136} Each student has to pay an annual fee of 286,000 MNT. Besides, the college offers further training courses to non-students. The fees and income from courses are the only financial resources of the college. In this context it is important to note that the Ministry of Education, Culture and Science directly controls the education budget in the aimags. Aimags can only make suggestions on how funds should be spent. Self-administration of financial resources by the aimags is not possible. Even the Mongolian Law on Coordinated Leadership for Regionalized Development anticipates the financing of education as remaining the responsibility of the Government.

\textsuperscript{137} Interview with Mr. Zagdgochoo, President of the Democratic Youth Association in Selenge, on 17\textsuperscript{th} September, 2003.
be briefly presented in the following. More details on each of the three schools can be found in annex 4 on page 184ff.

“MUST” Vocational School of Agriculture in Shamaar

The ‘MUST’ school of agriculture is located approximately 20 km away from Sukhbaatar and concentrates on the entire agricultural sector; even beekeeping is on the agenda. “The students learn everything what they need for running an agricultural economic entity independently. Starting with the repairs of technical equipment, continuing with learning the agricultural subjects (animal husbandry, cultivation of wheat and vegetables, growing of wild berries), ending with computer skills, bookkeeping and English.”138 According to the director, all schools are allowed to carry out productive activities. In his view, the school offers good conditions for setting up a more professional vegetable production. In addition, Mr. Bartold would like to establish a garage. For this he would need a permit from Ulaanbaatar and the money for new machines.

The fact that economic entities send their members of staff to the vocational school to obtain a diploma shows that the school and its educational offers are meeting the interests of economic entities. There is no age limit for courses. Staff members return to their economic entity after graduation. Additionally, the school offers agricultural training courses from between 21 to 45 days for working people. Training is open to everyone.

School of Technology in Darkhan

The school is one of the 17 branches of the Mongolian University of Science and Technology and offers degrees in four different departments: Building construction and building material technology, mechanical technology, food technology and light industry, and information technology. Within these four departments, students can choose between 17 different professions. At present, 60 lecturers teach about 1,400 students from 21 different aimags. Half of the teaching staff has practical experience. The demand for study is far higher than the supply.139 Asked to mention the strong points of the school, the director stressed the following:

- The positive co-operation with the Mongolian University of Science and Technology in Ulaanbaatar is a major advantage. The school would receive immediate assistance, should it be required. The quality of education and

138 Statement made by the school director during an interview on 18th September, 2003.
139 Between 300 and 400 of the 800 to 900 applicants are admitted as students each year, after passing an entrance exam.
the degree is equal to what can be obtained from the main branch in Ulaanbaatar. Students often prefer to come to Darkhan because it is a more convenient location.

- Another strong point is the fact that even economic entities from Ulaanbaatar sometimes prefer to employ graduates from the Darkhan School of Technology, since it is the only branch that prepares students for building material production, mechanical production, ferrous metallurgy production, and the production of equipment utilized in the building materials industry.

- In addition, the school is proud to be able to offer four computer laboratories and an Internet centre for students. Professors have their own Internet access.

- The school can compose its own syllabus, which is modified every second year as a result of research and consultation with economic entities.\(^{140}\)

With regard to weak points, the director indicated the following problems:

- The distribution of property and the continued financing of the school is uncertain. Since the beginning of 2003, the school has had to finance itself completely. Not even renovation work is financially supported by the central government or the aimag.

- Co-operation with economic entities is not always satisfactory. Local economic entities sometimes reject ideas developed in the school. The director gave the following examples: “Our school has developed a process for cutting up the raw material for cement. The cement company in Darkhan showed no interest in using this process. The same happened when we developed an idea for producing lighter cement bricks. There is also no co-operation between the university and a brick production company in the region.”\(^{141}\)

University of Agriculture in Darkhan

According to Mr. Jigjee, the General Director, the University of Agriculture is the most prominent institute of agricultural research and technology in Mongolia. The university consists of three sections:

- the agro-ecological school;

\(^{140}\) For more information about the school, see also their website: http://www.mtu.edu.mn.

\(^{141}\) Statement made during the interview in Darkhan on 22\(^{nd}\) September, 2003.
• the business production centre, with an area of 2,500 hectare (1,000 hectare wheat, 300 hectare potatoes, 40 hectare vegetables, and berries such as sea buckthorn, gooseberry); and
• the Plant Science Agricultural Research Training Institute (PSARTI).

The majority of graduates with degrees in ecology and nature conservation come from the Western and Gobi regions and eventually return there. Only agronomists have difficulties in finding a job.

Mr Jigjee has plans to develop the university into an Agro-Ecological Centre for the central region. In 1993, the university was the first to offer “Ecology” and Nature conservation as degree courses. In the meantime, numerous schools and universities throughout the country have them on their syllabus, but the University of Agriculture Darkhan was the first to include ‘Ecological management’ on its syllabus in 2003. The new subject was the result of a proposal to the Scientific Council of the University, which it accepted and transferred it to the Ministry of Education in Ulaanbaatar. Final permission was granted by the ministry.

The University co-operates with local governments in Darkhan and Selenge aimags. Together they organize meetings with herders, entrepreneurs and scientists. Scientific findings serve to inform people of urgent problems such as environmental degradation.

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142 For more information concerning PSARTI see annex 4 on page 185f.
4 Legal and institutional framework for participation in regional economic development

Actors concerned in regional development, including its economy, are local people of all kinds, from herders and entrepreneurs to politicians. The following aspects of local participation are crucial to sustainable regional development:

- Political decisions and budgeting on all administrative levels play an important role for the development of the regional economy; thus, the access to political posts and the power of local and regional actors in decision-making and budgeting will be analysed in chapter 4.1.

- A crucial test of the active participation of local people is how they are informed about the law and their rights to participate, and how they actually use these rights. This will be discussed in chapter 4.2.

- Compliance with the law, a further essential condition for the smooth functioning of the regional economy, will be examined in chapter 4.3.

4.1 Political decisions and budgeting

Most political decisions on regional development and the distribution of public budgets in Mongolia are taken centrally in Ulaanbaatar.

The Constitution of 1992 rejected the strongly centralized administrative system of the socialist era and defined the principle of “local self-administration under governmental leadership”\(^{143}\), with the intention of granting regional administration units more power and independence. However, since the return to power of the Mongolian Revolutionary People’s Party (MRPP) in 2000, resolutions strengthening the central government and the prime minister were passed\(^{144}\). It is often argued that the tendency towards centralization - sometimes referred to as the “recentralization of decentralization” - “is necessary to reinforce the public order after the crisis years from 1996 to 2000.”\(^{145}\) Attempts were made to fight corruption, for example, by increasing the budget of the central Ministry of Justice and Internal Affairs. At the same

\(^{143}\) Constitution of Mongolia, 1992.


time, new budget distribution laws were introduced, restricting the independence of the aimags and soums.

In many interviews, local authorities and members of aimag and soum administrations criticized the status quo, expressing the wish for more decision-making power and financial independence from the central government.

4.1.1 Political decisions on regional development

Regional state organs and institutions have only minor decision-making power. As a rule, they can only make proposals on issues concerning regional development, which then have to be approved by central organs.

Decisions in the aimags

An example of minimal decision-making power is the centralized education system, a fact that was criticized in several interviews, since “the people in Ulaanbaatar do not know what the region needs.” Consequently, educational institutions should be controlled by the aimag. Regional educational institutions, such as the Vocational School and Economics College in Uliastay, the State University of Agriculture in Darkhan or the Agricultural School in Shamaar soum in Selenge, are not authorized to decide on the subjects or the syllabus they offer.

**Examples of centralized decisions on training subjects offered**

In order to have the new “ecology management” subject included on its syllabus, the State University of Agriculture in Darkhan had to make a request to the Ministry of Education in Ulaanbaatar, which in the event was approved.

The same was true for the new “cultivation of wild berries” subject at the Agricultural School in Shamaar. The proposal came from the students, was first discussed by the teachers, and finally forwarded to the Ministry in Ulaanbaatar and approved.

Staff of the Vocational School in Uliastay stated that they would be in a better position to meet the needs of the regional economy if they could decide independently on the subjects to appear on the syllabus. This would also increase graduate employment in the region.

It was also argued that regional educational institutions should be able to decide on their own budgets. Some also complained that educational institutions such as colleges and vocational schools have problems to pay the high
salaries and fixed costs (electricity, etc.) since they do not receive money from the government anymore. A key reason for the migration of good teachers and professors to Ulaanbaatar is higher salaries in the central region (see also chapter B3.2), despite the fact that the cost of living is far higher in other regions than in the central region. The new law allowing educational institutions to earn money with productive activities, such as selling home-grown vegetables or self-made furniture, came up in the interviews.

**Decision-making at aimag level**

Mr. Bayarlhagva, Vice-Governor of Zavkhan aimag, claimed that the strategic regional plan for Zavkhan up to 2010, the 4-year-plan for the legislative period 2000-2004, and the detailed plan for each year were the most important decisions taken by his government in the last three years.

**Decisions in the soums**

Similar to the aimag level, a soum can send requests for projects to the aimag, i.e., for a new kindergarten or hospital, which are then sent on to Ulaanbataar. For the soum governors, lobbying at the aimag or national level is an important task in this context.

To explain the lack of decision-making power at soum level, Mr. Bayasgalan, head of the office of Otgon soum in Zavkhan, acknowledged “the soum can only decide about things that do not cost money.”

**Decision-making at soum level**

Mr. Baast, Governor of Sharyn-Gol soum in Darkhan-Uul, said the two most important projects he had realized in the last seven years were switching the telephone system from analogue to digital and the installation of a transmitting station for mobile phones - both of which he had to lobby for at central organs and companies.

Mr. Dolgorjav, Governor of Telmen soum in Zavkhan, found ways and means of implementing projects without support from the central government. At the moment the soum is in the process of repairing the Governor’s Office. The money for this project comes from selling vegetables and salty grass. The Governor said his biggest success in the last three years was the building of a wooden bridge. He acquired additional funds from an NGO and the employment office in Uliastay, the aimag capital.
Decisions in the bags

All bag inhabitant can attend bag assemblies. A quorum is possible if one fifth of the bag inhabitants older than 18 years are present. The assemblies can decide “about everything that does not cost money”\(^{146}\). The bag governor is responsible for the implementation of decisions and can give the respective instructions.

**Decision-making at bag level**

In an urban bag in Tossontsengel, the latest decision taken in the assembly was on the standardization of fences around private property: they are all to have the same colour and display house numbers.

Important issues to be treated in rural bag meetings are the distribution of pasture land, the situation of the herders, and current affairs in the soum - as reported by Mr. Tchimgee, Governor of Zuil bag in Yaroo soum. His relationship with the bag members is personal. If necessary, e.g., he drives people to the doctor.

\(^{146}\) Interview with Mr. Lundaajanzan, governor of an urban bag in Tossontsengel.
4.1.2 Budgeting

Foreign Credits and Subsidies

According to the law on the co-ordination of foreign credits and subsidies\(^{147}\), there is a central administrative organ that negotiates and signs contracts on projects with foreign donors. In addition, the ministry - or ministries - concerned or other ministerial organs participate in the negotiations. If not stated otherwise in the contract, funds are transferred to the state account at the Mongol Bank. The ministry is in charge of the daily supervision of projects, responsibility for overall control and reporting lies with the central organ.

\textit{Aimag} budgeting

According to the new budget distribution laws passed in 2001\(^{148}\), \textit{aimags} have to pay the most important taxes - private income tax and tax for economic entities, value-added tax, special tax for alcohol - directly to the central budget in Ulaanbaatar. All other taxes remain in the \textit{aimag} budget.

In the case of Darkhan-Uul \textit{aimag}, the new budget distribution laws meant the loss of half of its income from 2002 onwards. This led to severe financial problems and a negative budget, hence a number of vital projects in the \textit{aimag} were not carried through.\(^{149}\) In such cases the \textit{aimag} is obliged to ask for financial help from the capital in Ulaanbaatar: \textit{Aimag} governors go to the capital for lengthy negotiations and “feel like petitioners”, as they stated.

All departments, such as education, health or environment, in the \textit{aimags} are financed by the central ministry or central organs. The \textit{aimag} can only make proposals on how the money should be spent, but the decisions are made in the capital. The new regional fonds to be established according to the Law on the Co-ordination of Regional Development Leadership will also be under central control. The chairman of the regional council - an \textit{aimag} governor appointed by the Prime Minister - can dispose of the budget from the regional fonds, but the government reserves the right to decide how the fond is created and controlled, and how the money will be spent.

\textit{Aimag} representatives were not satisfied with this situation, frequently expressing strong criticism of the new laws. A member of the Democratic Party in Uliastay, Mr. Buyandalai, even suggested that legal framework for the

\(^{147}\) Law on the Coordination of Foreign Credits and Subsidies, 2003.


\(^{149}\) BARKMANN 2003:62f.
transfer to the regions of decision-making power on regional issues, particularly budget allocation, should be a prerequisite for the implementation of the new GTZ-supported programme.

**Criticism of aimag budgeting**

Aimag administration officials indicated in interviews that as a consequence of the new budgeting laws, the aimags were not particularly motivated to collect taxes they cannot keep. A fact that points in this direction is the low amount of taxes collected from private economic entities. In Darkhan-Uul, for example, the 29 state or semi-state economic entities paid 80% of the taxes in 2002, while 999 private economic entities paid only 20%;\(^\text{150}\) administration officials explained this discrepancy by declaring that private companies pay far less taxes than they should. The sense of duty involved in paying taxes seems to be low among entrepreneurs. One entrepreneur from Darkhan said, with a smile, that it was entirely up to him how much of his income remained after tax.

Mr Sededsuren, head of the GTZ office in Uliastay, criticized that money is often spent in the aimag simply to make the budget report look all right: “The administration reports always look the same.” Instead, the remaining money should go to the population “without an OK from above”, for things they find important, such as measures to counter the lack of information. He added that people were often not told what the money was spent on and what the benefits were supposed to be.

**Soum budgeting**

A tax official from Sharyn-Gol explained the target guideline from Ulaanbaatar (according to the new budgeting laws\(^\text{151}\)), specifying how much tax the soum was to collect. The money is paid to the central budget in Ulaanbaatar. Only taxes in excess of this target can be used independently. In 2002, the tax income of the soum was only 1% above the target - despite the fact that Sharyn-Gol is one of the richer soums with a large coal mine on its territory that pays 30% of all taxes in Darkhan-Uul aimag.

In return, funds are distributed from Ulaanbaatar to the soums for a number of services and products, such as new hospitals, kindergartens, etc. This money, however, is just enough to pay education, health, and administration costs, according to soum officials. In several cases soum governors complained that they had no financial means to implement their own projects.

\(^{150}\) BARKMANN 2003:64.

Criticism of soum budgeting

The Governor of Sharyn-Gol soum in Darkhan-Uul, Mr. Baast, reported that reforestation was the most urgent issue in his soum, but lack of funds meant stagnation. He would also like to support reasonable business plans (i.e., for a milk-processing factory) but is not in a position to do so.

The mayor of Uliastay, Ms Tumurbat, stated that 90% of the funds from Ulaanbaatar in 2002 were spent on education and 10% on administration. If she has a project idea, she has to discuss it with the aimag governor. Should the project volume be higher than 10 million MNT, she has to send a request to Ulaanbaatar.

In addition, some of the soum officials interviewed saw problems in the allocation of central funds. The money flows at first into the aimag budget and is then supposed to be distributed to the soums. In some cases, however, the money “gets stuck” at aimag level.

Example of budget distribution problems from aimag to soum

Central funds for the rebuilding of the kindergarten in Telmen got stuck at aimag level, as the Governor of Telmen soum, Mr. Dolgorjav, explained. Distribution problems of this kind have happened several times since he came to power in 2000. He could of course complain about this to the aimag administration, as he said, but it would be useless. Knowing he cannot rely on money from Ulaanbaatar, he looks for other possibilities - often international donors - to carry projects through. Many of his colleagues do not do this, “they wait for the money from Ulaanbaatar”.

Although problems with the distribution of funds to soums still exist, Mr. Dolgorjav claims the situation has improved in recent years. In his opinion, the new management and financing law from January 1, 2003, has had a positive effect.

Bag budgeting

Bags do not have their own budget. This was criticized by bag officials as well as ordinary people (“no money makes its way through to the bag level”).

Lack of money for petrol, especially in rural bags with large distances, makes it difficult for the bag governor to keep in touch with the people. In one bag, people complained that “the bag chief never comes to visit”.

Criticism of bag budgeting

The governor from Zuil bag in Yaroo soum in Zavkhan, Mr. Tchimgee, reported that for the realization of projects that cost money (i.e., the building of a bag centre) he has to make a request to the soum. This is passed on to the aimag, and finally to
Ulaanbaatar. “This process takes a long time, which is why I have hardly made any requests so far”, he said. He earns 40,000 MNT per month and receives only 0.7 litres of petrol to visit the people in his bag.

Model of a planned bag centre in Yaroo soum (Zavkhan aimag), a project that waits for approval by the Ministry in Ulaanbaatar

4.2 Information on and participation in regional economic development

4.2.1 Citizen information

It became obvious in many of the interviews that information about laws and political decisions for citizens is of a poor standard, unreliable, and inadequately organized. This is true for national laws (i.e., for labour laws or the new law on land privatization, which directly affected tenants of state-owned land), as well as for laws and decisions at aimag and soum level. Nevertheless, the overall improvement in the information policy of governmental organs in recent years was expressed several times.
Citizen information on regional development near the Governor’s Office in Uliastay

General lack of information

The overall poor flow of information (see chapter B3.1), for example via the media, is a major problem and particularly affects regional and local news. In the remote Zavkhan aimag, the problem is even more severe than in Darkhan-Uul and Selenge. On the whole, the impact on rural areas is more extreme than in aimag centres. All relevant official documents on the regionalization process (laws and resolutions), for example, were printed in Mongolian newspapers in Ulaanbaatar. Few people in aimag centres receive these papers (they arrive in Zavkhan with a delay of several weeks). Thus, citizens in Zavkhan, Darkhan-Uul, and Selenge have no access to legal texts as a rule or to the latest information on the process of regionalization.\(^{152}\)

Lack of independent information

The state television programme “MN” is controlled by the government. “It is not possible to criticize anything here”, said a member of the Democratic Party in Zavkhan. An employee of the Chamber of Commerce and Industry from Darkhan explained: “MN and the public media tow the government line. They only report the positive side of things to the people, saying everything is all right.

\(^{152}\) BARKMANN 2003:58.
The opposition does the contrary, they only talk about negative things. Private TV stations are not neutral either, they take one side, depending on who owns the station. So the people are confused and do not know what to believe. It is very important to have independent media in Mongolia.”

According to a law in December 1993 on the official status of towns and villages, the administrator of the town or village aligns the activities of municipal broadcasting institutions. A journalist in Uliastay complained that the selection of regional news broadcast regularly on MN is undemocratic and in the hands of the aimag governor. The law apparently leads to extensive control of programmes by the government.

Governmental information policy

In addition to these general information deficits, governmental information policy is inadequate. Bulletin boards in aimag or soum Governors’ Offices were available in only a few cases. Neither were there regular publications for the public on governmental activities. People are usually informed at public meetings, which the aimag government in Zavkhan holds every three months. Some commented that they should take place more often, such as once a month. In some soums the administration presents its work in monthly assemblies in the bags.

Criticism of governmental information policy

In Zavkhan, entrepreneurs reported that they are not satisfactorily informed about regional tenders, especially if they have a volume of more than 70 million MNT, in which case they are announced only in the national newspapers in Ulaanbaatar. The newspaper is delivered by plane from Ulaanbaatar every three or four days and occasionally arrives late or not at all. As a result of this, one particular construction entrepreneur from Tossontsengel was not aware of the tender for the construction of a new hospital in the neighbouring Telmen soum. A company from Ulaanbaatar was thus awarded the tender, while regional companies were left empty-handed.

One young entrepreneur from Darkhan complained about the governor’s office in Darkhan, where he asked for information about the law and citizens’ rights but got no response. Service at the Governor’s Office is, in his opinion, not oriented to the needs of the people. Nevertheless, if he had a problem, he would try to talk to the aimag governor, although he knows “that he is a busy man and it might be difficult to make an appointment.”
Ms Tsetsegee, head of the department of strategic planning and policy co-
ordination in Zavkhan, claimed that the aimag governor’s door would always be
open for the people - our impression corroborates this. In general, state
officials in the three aimags visited seem to have a comparatively good
relationship with the people, especially at the soum and bag level. In rural
regions this seemed to be more distinct than in urban areas, and in the remote
Zavkhan aimag more than in the central Darkhan-Uul aimag.

Nonetheless, many interviewees stated that people do not know their rights or
how to practice participation. The suggestion was made that the government
should inform people in regular television programmes, such as that of MN,
which is supported by the German Hans-Seidel-Foundation and reports on legal
cases and disputes. Programmes of this type would be inexpensive, but effective.

4.2.2 Participation in regional economic development

The participation of people in decisions on regional economic development
primarily takes place via associations or parties, or indirectly through the
election of parliamentarians at the different administrative levels.

Legal rights

The participation of citizens in the leadership of the state and administrative
processes is legally guaranteed in the constitution of 1992. Citizens have the
following rights:

• to take part, directly or through the parliaments, in the leadership of the
state;
• to vote actively and passively (all citizens over 18 are entitled to vote);
• to found parties or other public organizations;
• to submit requests and complaints to state institutions and officials;
• to make proposals regarding draft laws to the initiators of the law.

Parliaments, parliamentary chairmen, governors of all levels, as well as other
state institutions or officials are obliged to listen to citizens’ proposals,
requests, and complaints and to decide on their outcome according to the law.
The same is true for the new regional councils.153

On the right to make proposals, requests, and complaints

In Zavkhan and Darkhan-Uul aimags, citizens frequently use the right to submit proposals, requests, and complaints. In most cases, however, they address personal or family issues. The vice-chairman of the Mongolian Revolutionary People’s Party (MRPP) in Zavkhan, for example, said that sometimes up to five persons per day ask for the allocation of jobs.

Some of the interviewees reported a poor response to their requests and proposals. For example, requests of the youth association in Uliastay to state organs were not answered promptly in the past, and decisions were taken very slowly.

The proposal of an entrepreneur from Darkhan to the national parliament for support of domestic production was never answered.

“Theoretically, every citizen has the right to make complaints up to presidential level. But only the associations have the power to influence law-making by making proposals and complaints”, was the opinion of an entrepreneur from Darkhan.

Political inactivity and disinterest

As a rule, legally guaranteed rights of participation are exercised by citizens to a certain degree only. One reason is the lack of information about political decision-making processes in the aimag. Another is that people are sceptical of their rights to participate and do not perceive them as a genuine opportunity. There is a tendency towards political inactivity among the people, as well as a general apathy that sometimes lapses into fatalism. Many of the interviewees had no interest whatsoever in participation.

Examples of political inactivity and disinterest

12 out of 13 economic students in Zavkhan (the exception was a member of the youth association), tradeswomen in Uliastay, young entrepreneurs in Darkhan, and vegetable farmers in Selenge all said they had absolutely no interest in participation.

A young entrepreneur from Darkhan said, “it is better not to participate in the development of the regional economy and not to interfere with the big people” - by which he meant the governor and the inspectors. “They are the boss. If you have too many ideas, they might put a spoke in your wheel, especially if you are young like us.”


A teacher from Darkhan claimed that young people’s lack of interest in politics and the law or in building up society was a problem. This is a general problem of education nowadays, both at home and in school. There is a school subject entitled “Basics of law”, but the quality of the lessons depends very much on the teacher, many of whom are not sufficiently qualified.

Members of the youth association in Zavkhan stated that expressing ideas or putting them into practice was almost impossible unless you were a member of a party. “Join our party!” was the response to their attempts.

In contrast, the governor of Bayangol soum in Selenge said that anyone who had ideas or wanted to participate could do so. They could come to the meetings of the soum parliament, which is open to the public, and say what they think. In his view, many of the citizens, particularly young people, are not aware of their rights or the possibilities of participating, which is why it is necessary to inform people. “There are enough possibilities to participate, but they are not being availed of.”

Interest groups and personal networks

Nevertheless, there are some groups that want to participate in planning and implementation processes. One of these is the entrepreneurs that are organized in the Chambers of Commerce and Industry and can articulate their interests very clearly. In Zavkhan, this process is in the early stages, whereas in Darkhan it is already quite advanced.\footnote{BARKMANN 2003:61.}

Example of co-operation in interest groups

Several trade companies in Zavkhan decided to jointly take part in a central tender for a wholesale network. Not only large enterprises but also trade co-operatives and small traders were part of the merger. A successful tender would give fresh impetus to co-ordinated activities and the ability to become organized.\footnote{BARKMANN 2003:61.}

Tightly-knit personal networks play an important role in all parties. Entrepreneurial interests are beginning to dominate these party networks quite strongly - including the MRPP.\footnote{BARKMANN 2003:57.} The power and influence of Mongolian trade unions, on the other hand, is relatively low.\footnote{Interview with Prof. Dr. Barkmann on 29th October, 2003.}
Influence of entrepreneurial networks

“Parties and state organizations are much more interested in our collaboration and advice than in that of the trade unions”, said the Vice-President of the employers’ federation in Darkhan-Uul aimag, Mr Nyansuren. “We can influence labour or customs laws, for example, or the governmental programmes to support small and medium-sized enterprises.”

Due to administrative structures defined by law, parties have considerable influence on the representation of interests, as well as on citizen participation. The enormous influence of party networks thus constitutes an obstacle to citizen participation.

Election of parliamentarians and Governors

Parliamentarians at all three regional levels (bag, soum and aimag) are elected directly by the citizens. They, in turn, elect the governor and propose him as governor (for example as soum governor). The governor at the next higher level (for example the aimag governor) either appoints him or rejects the proposal. Should he refuse the second parliamentary proposal, he has to negotiate with the parliamentarians and come to an agreement. This happened in 1996, for example, when the soum Governor of Sharyn-Gol, Mr Baast, a member of the MRPP, was rejected twice by the aimag governor of Darkhan-Uul, a member of the Democratic Party. However, subsequent to negotiations between the aimag governor and the soum parliament, Mr Baast was able to take up the post.

Election polls

Zavkhan and Darkhan-Uul aimags showed a sharp decline in election polls in recent years, at national as well as at aimag and soum level. The overall poll in all four soums was a mere 52.8 % at the last soum parliamentary elections in Darkhan-Uul aimag. One of the chief reasons is the dwindling trust in political parties. The general disinterest in participation mentioned earlier is another reason.

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161 BARKMANN 2003:58.
162 Source: Statistics of the committee of the aimag parliament of Darkhan-Uul.
163 BARKMANN 2003:56.
Low interest in elections

In an interview with a couple of young entrepreneurs in Darkhan, only the man remembered - after being asked about it - that he could participate in electing the aimag parliament. “Yes, there was somebody here who gave us the voting form. But I did not use it. I had no time and no interest in it, they will elect somebody from the party anyway.” The woman had no knowledge whatsoever of her right to vote at the aimag, soum and bag levels.

Protests, strikes and demonstrations

Mongolia has seen occasional protests, strikes and demonstrations since transition. In 2000, the trade union in Tossontsengel organized a strike of state employees because wages had not been paid. In 2002 and 2003, there were several demonstrations in different parts of the country against a new law on the privatization of land, some of which involved clashes with the police.

People protested in Uliastay against relocation of the airport 30 km outside the town. This decision was taken by the aimag governor and experts from Ulaanbaatar, without involving the people themselves. In response to the protests, the government launched a campaign to explain the change of location (high accident risk at the former location).

4.3 Non-compliance with laws and corruption

There were complaints in several interviews about corruption in Mongolia and non-compliance with the law. Remarkably, the offenders were well known in most cases, but neither the state nor the media responded.

4.3.1 Illegal wood-cutting and non-performance of reforestation

Example of illegal wood-cutting

The Vice-Governor of Mandal soum and his son described how wood thieving is carried out: “Everybody who has such a lorry (with 3 or more axles) steals wood from the forests. They come to town at 3 or 4 a.m. and sell it. Lookouts in cars park in the hills surrounding the city and warn them of police controls via mobile phone (we were shown one of these watchers). The police sometimes confiscate the stolen wood, but people just continue stealing it.” Why (often well-known) receivers of stolen wood are not punished could not be clarified.

In the course of several interviews, people identified illegal wood-cutting as a major problem - often without being asked about it specifically. In Tossontsengel...
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Tsengel, for instance, one sawmill owner was well known for buying and processing illegally cut wood (even advertising for it in the papers).

Furthermore, sawmills and mining companies, for instance, do not fulfil their duty of reforestation, to which they are bound by contract. According to the law, every company that cuts wood is obliged to carry out reforestation.

Example of non-performance of reforestation

The soum Governor claimed that of the 15 gold-mining companies operating in Sharyn-Gol soum, only one has carried out professional reforestation of 2 hectares of land. Companies are also obliged to deposit 50% of the money needed for reforestation as security at the Governor’s Office, “but in most cases this money never reaches the Office. We should be more strict on this issue”, the Governor acknowledged. Only one of the three sawmills in Tossontsengel was in the process of reforestation - on a small area of 50 square meters.
4.3.2 Non-compliance with labour laws

Non-compliance with labour laws was also mentioned as a large problem, especially in private companies. The chairwoman of the trade union association in Tossontsengel reported that the legal minimum wage of 22,000 MNT per month is not always paid. Countless sales assistants in food stores, for example, earn only 10,000 MNT per month. Wages are frequently not paid at all or only in the form of food or sweets. Unpaid extra work is prevalent as well as unlimited working hours in many cases. The statutory period of three months prior to dismissal is frequently not complied with and people are thrown out immediately. Workers at the spirits factory in Tossontsengel, for example, were affected by this and asked for assistance at the trade union.

4.3.3 Corruption

In a number of interviews, people reported cases of corruption - without having been directly questioned on the topic.

- **Administration officials and inspectors** take money or other bribes for issuing licences, such as a licence to produce spirits (reported by an entrepreneur in Khongor soum, Selenge aimag), a licence from the trade supervisory office (reported by an entrepreneur in Sukhbaatar, Selenge aimag) or a veterinary service licence (costs bribes of 50,000 to 100,000 MNT, as reported in Darkhan).

- Entrepreneurs reported that decisions on public tenders are often not transparent, or “not really honest”, and that bribes had been paid.

- **Bank officials** used to take bribes or invitations to dinner as a reward for loans, as reported in Darkhan and Zavkhan, “but this has improved nowadays”.

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**Statements on corruption or nepotism in Ulaanbaatar**

“The majority of World Bank credits (large amounts, low interest rates, long-term) is distributed among government members. To keep people quiet, World Bank loans are also granted at aimag and soum level.”

“Some years ago, the Ard Bank (former state bank) was destroyed by the democrats, who shared the bank capital between them.”

“In January 2003, the Mongolian parliament approved 180 million MNT to support intensive livestock breeding, but the money had already been spent by March 2003. Some colleagues and I (an entrepreneur who breeds cows) went to the Ministry of Agriculture in Ulaanbaatar to ask a top ministerial official how the money had been spent and who got it. We got no answer.” This particular entrepreneur does not want to inform the press, because “making trouble is a disadvantage. I will not get a loan if I make trouble.”
CHAPTER C: CONCLUSIONS AND RECOMMENDATIONS

Computer room in Uliastay (Zavkhan aimag)
1 Introduction

Based on the analysis of interview and workshop results and secondary sources, we conclude that the GTZ ‘product’ “promotion of the regional economy” is an appropriate instrument to generate income and employment in the regions, with a potential benefit for a large section of the population. This holds true for both programme pilot regions: Zavkhan in the Western Region and Darkhan-Uul / Selenge in the Central Region.

In our opinion, further planning and implementation of the programme should be participative and involve local stakeholders from all target groups; it is they who are most aware of the potential of the regions and their specific needs. The programme must be tailored to individual regional requirements, which differ greatly in each of the two pilot regions, as well as from one region to another.

The heaviest constraints on economic development in Zavkhan are lack of transport, communication, and infrastructure for the supply of energy. Investments by foreign donors and central government in the near future should bring significant improvements to the regional economy - for example, the building of the tarred “Millenium Road” connecting Zavkhan to the Central Region.

There is a huge demand in Zavkhan for easily accessible loans, especially those with long-term rates. The quantity and quality of educational, vocational, and advanced training in the region is poor, and constitutes a major push factor for migration to the Central Region. Professional entrepreneurial training, consultation, and information supplied by so-called business development service providers is also inadequate.

As the programme will not be able to support the development of a transport infrastructure or the construction of large power plants, we recommend - in accordance with local stakeholders - concentrating in Zavkhan on the areas mentioned above:

- improvement of communication and information flows at all levels (interregional, national, and international);
- improvement of financial services, focusing on easy access to long-term loans at reasonable lending rates;
- improvement of business development services;
- improvement of educational, vocational, and advanced training.
The situation in Darkhan-Uul and Selenge is quite a different matter. Transport and energy supply infrastructures are of a comparatively good standard, due to the railway and the main road that cross the region, linking Russia to China via Mongolia. Proximity to the capital Ulaanbaatar facilitates access to markets. Information channels are slightly better than in Zavkhan, but progress in this direction is essential. The same can be said for business development services. In the regional centre Darkhan, the supply of educational, vocational, and advanced training opportunities is largely satisfactory. There is an obvious need for accessible loans, particularly with long-term rates, although the situation is slightly better than in Zavkhan.

We thus recommend - in accordance with local stakeholders - that the programme in Darkhan-Uul / Selenge should concentrate on the following areas:

- improvement of communication and information flows at all levels (interregional, national, and international);
- improvement of financial services, focusing on easy access to long-term loans at reasonable interest rates;
- improvement of business development services.

Overgrazing and desertification are major problems in the central pilot region, particularly in the surroundings of the regional centre Darkhan, leading to water shortage in some areas. One reason is the immigration of substantial numbers of herders from the Western aimags and the breakdown of pasture management systems in the course of transition; deforestation of vast areas during the socialist era and massive forest fires in recent years is yet another reason. The upshot was a loss of income in various sectors, since natural resources were always the backbone of the regional economy. This presents a challenge to future economic development in the region. The programme, therefore, should support activities such as reforestation, pasture management, and the use of appropriate farming and animal husbandry techniques - the latter with the aim of reducing the number of livestock in the region.

In both the Zavkhan and the Darkhan-Uul / Selenge regions, there seems to be scope for easing administrative hurdles and improving dialogue between entrepreneurs and the authorities.

Specific sectors and lines of business have enormous potential in each region. Local projects and beneficiaries applying for programme support should be selected according to predefined transparent criteria. In this context,
widespread information about the programme and the opportunities it offers should be a major focus.

In our opinion, the programme should support any local initiative or project that matches the criteria, thus strengthening the core sectors, as well as the promising niches, products, and services we discovered in each region.

To avoid cases of misappropriation of funds and corruption, the programme should take effective supervision and control mechanisms seriously.
2 Conclusions and recommendations with regard to the programme concept

2.1 Legal and institutional framework for participation in regional economic development

Assessment of the current situation

The current legal and institutional framework fulfils basic preconditions for the implementation of a participatory regional economic development (RED) programme, such as freedom of speech, freedom of the press, democratic elections, and freedom of demonstration. However, some aspects in particular constitute a challenge to a genuine participatory approach:

- A number of new laws and resolutions passed between 2001 and 2003 strengthen the Prime Minister and the central government, and restrict the powers of regional authorities, especially in relation to the budget.
- There is a general lack of information among the local population on laws and regulations and on government plans to promote RED, etc.
- Cases of corruption with regard to licences, subsidies, credits, tenders or fines appear at all administrative levels. Non-compliance with certain laws (labour laws, environmental laws) is also a problem.

To address these challenges in the course of the programme, we recommend the following measures:

Reconcile regional and national interests

On the one hand, the programme should co-operate and communicate intensely with the central organ responsible for implementation, in this case the MOFE. Programme objectives, measures, and responsibilities, in particular with regard to budgets, should be clearly defined from the outset at both regional and local level.

On the other hand, the programme should strongly involve regional and local authorities as well as other stakeholders in the planning and implementation process, taking their opinions and wishes into account. GTZ should make use of possible space to manoeuvre in order to meet regional interests and actively promote it. In general, the programme should actively demand measures that strengthen the autonomy and power of regional authorities in relation to the national government, and support them. This should take place in several fields that are significant for the development of
the regional economy, such as education and trade with foreign countries. Export trade from the regions to foreign countries would, for instance, be easier if regional governments rather than the capital could take the decisions. In Russia, on the other hand, border provinces - e.g., Tuva - are in a position to make decisions on trade relations with Mongolian provinces - e.g., Zavkhan.

As the expressed aim of the national government is to develop the regions and achieve a balance of economic development between individual regions, it should be possible to reconcile regional interests and the leading role of central government. GTZ should influence and support the relevant national and regional actors to achieve this aim. We recommend that the programme conduct or support legal consultations with the national and regional governments on regionalization issues, especially budgeting. The programme should actively demand an amendment to the new budgeting laws, allowing most of the tax income to remain in the aimags, so that they might have sufficient resources at their disposal.

Promote information and transparency

The programme should promote and organize information activities (e.g., workshops, publications, TV, and radio programmes) on the available opportunities for citizens to participate in regional economic development, for example by attending bag, soum or aimag parliament meetings, by making requests and proposals to state organs, by building citizen groups or by forming associations and co-operatives. Regional and national government action in this field should be supported and actively demanded.

Reinforce compliance with the law

The programme should install effective supervision and control mechanisms for planned activities. It should only support economic entities or initiatives that respect the law (labour laws, environmental laws, etc.). Governmental or non-governmental organizations committed to reinforcing compliance with the law should receive support. Legal advice on this topic should be conducted by the programme or at least supported.

2.2 Improve information flows

Assessment of the current situation

Lack of access to information, to a great extent as a result of its absence in large parts of the pilot regions, emerged as a major obstacle to the personal development of the aimag inhabitants and the overall development of the
regional economy. Local stakeholders, in particular from Zavkhan aimag, proposed a variety of measures to overcome the general lack of information and, at the same time, provide economic entities with relevant information.

Although access to information is slightly better in Darkhan-Uul, we strongly recommend that the programme supports initiatives aiming at improved access in both pilot regions:

Create or re-establish local and regional media

In accordance with local stakeholders, particularly in Zavkhan, we strongly recommend supporting initiatives that help to put the local media, such as newspapers, television, radio, and the printing press, back in operation, using the available knowledge, infrastructure, and personnel. In addition, new establishments such as local radio broadcasts, newspapers, and television programmes should be supported directly by the programme as a key framework condition to achieve its objectives. The local media could inform the public about politics in general, as well as topics of particular social and economic interest, while simultaneously serving as a platform to spread the goals and concepts of the programme.

Establish information centres

There is an urgent need for versatile information centres to supply a wide range of services and advice. In order to attach value to them, some of the services could be paid for. Information centres could be centrally located and open to the general public. They should also include a networking component, whereby various local stakeholders, such as individual citizens, entrepreneurs,
business development service (BDS) providers, public administration, and other institutions, could exchange information. This could be effected by establishing a personals section where those who either need or provide specific information can register. In Uliastay, we recommend extending the existing GTZ-supported co-operative training centre to include an information centre for the general public.

Extend current Internet connections

As a first step, we suggest that the programme should assist in connecting available Internet providers to fibreglass cables already in place in the pilot regions, and broaden their capacities. Further, we recommend supporting feasible project ideas that focus on the establishment of an Internet provider. In this sense, the programme would fulfil the twofold task of generating income and, at the same time, providing improved Internet access for a wider range of local people. Additionally, the programme should offer computer courses and education in foreign languages in an attempt to promote greater access to the Internet than is already on hand.

Organize exhibitions and trade fairs

The programme should help to intensify the organization of exhibitions and trade fairs to give economic entities an overall view of the market, as well as individual products and technologies, and to bring them up to date on potential competitors. Events of this kind would present graduates with the opportunity of meeting potential employers, gaining information about job opportunities, and considering their future prospects. Potential organizers to be supported by the programme are BDS providers, (a group of) local economic entities, public administration, or joint initiatives by different stakeholders.

Provide start-up entrepreneurs with specific information

As a special target group, the programme should support start-up entrepreneurs with adequate access to economically relevant information. The above-mentioned measures should be implemented to begin with and include special offers for start-ups. Secondly, the public media should be encouraged to offer special programmes for start-ups (e.g., “How to start a business?” “What are my prospects?” “Where can I get financial support?”).
2.3 Improve financial services

Assessment of the current situation

The credit terms of the financial institutions surveyed favour short-term investments in current assets and trade, and are a deterrent to long-term investments in productive assets and manufacturing. Moreover, they constitute an almost insurmountable barrier for start-up entrepreneurs:

- Credit periods of 3 to 12 (or 24) months make loans unattractive in introducing economic entities that cannot expect immediate returns on their investments, e.g., in buildings and plants.

- Access of economic entities to medium and large-scale loans (30 to 100 million MNT) is extremely difficult, as only certain banks with a limited outreach and strict collateral demands provide for them. This constitutes a major restraint to the development of production that generates employment and is environmentally sound, but usually requires considerable investment in plants and technologies.

- In view of the very low annual inflation rate of 1.6% (in 2002), lending rates of 35 to 60% per annum are unreasonably high. This puts a heavy burden on investors in productive assets and increases the risk of default (which, in turn, steps up the cost on the creditor side). Net interest margins, however, are lower in savings and credit co-operatives (SCCs) than in other financial institutions.

- The demand by banks, non-bank finance institutions (NBFIs), and most government programmes for adequate collateral makes accessing credit difficult for numerous economic entities, while start-up entrepreneurs are practically excluded altogether, particularly young people who still live with their parents.

- The handling time of applications is generally within a reasonable limit. However, first clients of banks or NBFIs are particularly disadvantaged in comparison to long-standing customers, where one or two weeks can be decisive to people whose business idea can only work if it is rapidly put into practice.

In order to support an investment-friendly environment for economic entities, particularly start-ups, we recommend strengthening institutional finance in the pilot regions by focusing on the improvement of access to long-term loans:
Provide matching funds to SCCs and NBFIs

Interested and experienced SCCs should get access to matching funds to increase their capital stock, provided they are used to finance investments by (groups of) members in productive activities that are both environmentally sound and generate employment; depending on the specific investment, this would imply medium and long-term credit periods of between 4 and 5 years. With the exception of this condition, co-operatives should be free to pursue their usual decision-making procedures and apply internally agreed credit terms, e.g., in relation to lending rates. To avoid the unnecessary bypassing of current self-reliant structures, the matching fund scheme should be implemented through co-operative associations, which would be entitled to check applications and select competent and trustworthy member co-operatives. The associations should be checked for their ability to implement the scheme in a fair and transparent manner and, if necessary, receive the required training.

In general, the programme should promote the formation of SCCs, particularly in Selenge aimag, building on experience gained from the implementation of the GTZ-supported SHO project in the Western Region. Existing SCCs in both pilot regions and their support structures in the aimag centres and Ulaanbaatar (especially the Mongolian Co-operative Training and Information Centre) should receive advice and training in financial management (accounting, loan management, etc.).

Once NBFIs have become stable finance institutions with sufficient experience in credit management, they should also be considered for matching fund allocation. Apart from those generally applied to SCCs, a lending rate of 1-1.5% per month should be added as a further condition, since loans might otherwise appear unattractive to the intended target groups.

Provide appropriate financial support for start-ups

Start-up entrepreneurs (particularly young people) interested in investments in viable business activities should get access to a special credit programme tailored to their needs and capabilities. As they usually lack collateral and start-up capital, leasing of productive assets (machines and other equipment) might be an appropriate form of lending, but should be piloted first. The credit programme for start-ups should be implemented via non-bank non-governmental finance institutions that are both interested and capable, and serve - or want to serve - this target group. NBFIs, NGOs, and possibly SCCs are worthy of consideration and should be screened; however, in deciding
exclusively in favour of SCCs, there is an inherent danger of not reaching certain start-up entrepreneurs. Some of them may simply not be interested in becoming co-operative members, while others, such as young people without an income, could be deterred from joining a co-operative by the minimum membership deposit, which can be quite considerable.

Involve banks in informative meetings

In our view, banks do not require specific support and GTZ should not enter into competition with current donor schemes handled by banks. Banks are expected to adjust and develop their products and credit terms in the face of growing competition on the loan market. However, bank representatives should be invited to participate in local or regional meetings and consultations that deal with the promotion of the regional economy. This would help them to understand the specific needs of various groups of clients (start-up entrepreneurs, manufacturers, etc.) more clearly and acknowledge the crucial role they play in regional economic development.

2.4 Strengthen business development services

Assessment of the current situation

Existing public and private institutions that provide highly-qualified non-financial services to economic entities - so-called business development service (BDS) providers - in the two pilot regions are still in an early phase of development, i.e., in the process of defining their missions and becoming more professional in order to fully address client needs. On comparing the two pilot regions, it is clear that the supportive institutional environment is less advanced in the Zavkhan aimag than in Darkhan-Uul or Selenge aimag.

It is evident that the staff and the members of BDS providers, such as the Chambers of Commerce and Industry (CCI), co-operative associations, employers’ federations etc., lack the opportunity for further qualification. This, however, is essential if clients, particularly start-ups, are to be supplied with satisfactory services of a high standard. With regard to technical equipment, all institutions visited showed a lack of the equipment required to work professionally and carry out tasks to the full. Lack of Internet access and an insufficient number of computers for staff members are just two examples.

Co-operative associations are still poorly developed, not least because the idea of forming co-operatives is still getting off the ground in many parts of the
pilot regions. The formation of co-operatives and their associations is a positive method for economic entities to do business more successfully.

Some providers place advertisements in order to attract more members and spread information about services and their advantages. However, institutions often have financial difficulties with advertising, which explains why the advantages of BDS products are not always clear to local stakeholders in the pilot regions. In addition to insufficient advertising, there is, in our opinion, still a lack of awareness about the necessity for BDS in the regions and the possible advantages economic entities could gain by making use of them.

This assessment suggests that the programme should support the two pilot regions in the field of BDS as follows:

Build and strengthen capacities of BDS providers

The programme should include specific support for BDS providers in the early stages of development and of overcoming starter problems. On the other hand, it should accompany established providers and reinforce their development. We recommend supporting both groups of providers in procuring and financing technical equipment for the staff (computers, Internet access, and other equipment). Improved technical equipment would also help institutions to provide the specific information frequently requested by clients but inadequately responded to.

In order to assure more services and greater diversity, as demanded by numerous economic entities and interested individuals, the programme should include training courses on certain subjects (e.g., acquisition of information, management) and other suitable measures for staff members (e.g., language courses). GTZ should take into account the experience gained in implementing the Berlin Business Development Co-operation (BAO) project in Darkhan.

Build awareness of potential providers and clients

Spreading the idea of business development services and boosting client awareness of the utilization and advantages of BDS is recommended. This, for instance, could be achieved by more advertising or gratis distribution of the Yellow Pages to economic entities. From our point of view, the programme should be supportive in the establishment of a BDS database, accessible to those interested.
Support co-operatives and associations

We recommend creating awareness about the advantages of co-operatives among people in the *soums* and *bags* of both pilot regions and assisting in the formation of new co-operatives and co-operative associations. GTZ should (continue to) support existing co-operative associations, building on its experiences gained in the implementation of the “Organized Self-Help” project in the Western Region.

Assist BDS providers in the promotion of SMEs and start-ups

Small economic entities and start-ups, both of which rarely have their own marketing department, should have the same opportunities as large companies to become more competitive and contribute to regional economic development. Therefore, we highly recommend that the programme should focus on support for particularly these two groups and assist BDS providers in including them more into their services.

Assist BDS providers in networking

We recommend that the programme assist BDS providers in networking activities. Lack of information, often criticized by both providers and clients, could be minimized with improved linking of various national service providers and the establishment of contact with foreign institutions such as the ICCI. Domestic and international trade fairs also provide an excellent opportunity to network; the programme should support their organization by BDS providers. In addition, information centres would provide outstanding opportunities for providers and customers to come into contact with each other.
2.5 Improve co-operation between economic entities and public administration

Assessment of the current situation

Public administrative staff in both pilot regions see themselves as service providers for entrepreneurs to a certain extent only. From their point of view, it is not necessary to change present procedures; on the contrary, they are of the opinion that the entrepreneurs themselves are responsible for the lengthy procedures. Over the past few years, licensing and registration procedures have been simplified and larger economic entities seldom complain of difficulties. However, licensing procedures for start-ups and smaller entities in particular still constitute an obstacle to business activities.

To facilitate dealings with public authorities, especially in the case of SMEs and start-ups, and to support joint action between the two sides, we recommend supporting public administration in the following fields:

Motivate and build awareness

Before public administration can improve their performance, awareness of their role as a service provider needs to be created. It should be clear that licensing and registration procedures for economic entities have important social, economical and ecological functions and should therefore not be repealed. However, public administration staff should understand the role it plays in smoothing the path to regional economic development and lowering the hurdles for economic entities. In workshops or role-plays, they could be motivated to put themselves in the entrepreneur position and visualize the tasks economic entities have to fulfil. Including economic entities in these awareness workshops should be considered in order to create understanding for public administration constraints.

Promote co-operation

From our point of view, enhancing co-operation between public administration and local stakeholders (citizens, start-ups, economic entities, etc.) is a valuable measure to minimize obstacles to regional economic development. Initial attempts at co-operation have already got under way (e.g., in Selenge aimag), which proves that the idea of co-operation is beginning to develop and will eventually be accepted by local stakeholders. The programme could reinforce these initiatives by supporting the relevant actors in establishing regular meetings where people have a platform to comment on matters of common interest. Solutions to problems that crop up on both sides should be
discussed to remove mutual prejudices. It is crucial that meetings be open to all interested local stakeholders, in order to prevent decisions being taken by an influential minority.

Simplify procedures

Taking up the suggestion made by local stakeholders to establish “one-stop-agencies” where customers can obtain relevant information, the required forms, and, if necessary, counselling, could be of assistance to public administration. Some districts in Ulaanbaatar already have this service in place. In addition, “one-man service points” could be established in remote sub-centres.

Reduce corruption

We see the lessening of corruption in public administration as a critical field of action for the programme. Here, however, it is the obligation of the Mongolian central government and local governments to take appropriate countermeasures. They must lay down unambiguous laws and regulations and render them transparent to the public. The programme should support initiatives to introduce centres where citizens can lodge complaints about corrupt procedures.

2.6 Improve vocational and educational training

Assessment of the current situation in Zavkhan

The educational situation in Zavkhan is unsatisfactory. Teaching facilities and equipment are in bad condition; teaching materials are either outdated or unavailable; staff members lack practical experience and training prospects. Advanced educational institutions such as the Economics College and the Vocational and Production School in Uliastay are obliged to cover costs since they do not receive financial support from the central government or the aimag. Apart from financial problems, co-operation between schools and economic entities is in its infancy. As a result, the supply of economic entities with skilled graduates is much poorer than in the northern aimags of the Central Region. This miserable state of affairs is one of the major reasons why teachers and young people from Zavkhan aimag migrate to Ulaanbaatar or other parts of the Central Region, leading to a brain drain, a continuous loss of educated people. We recommend supporting a variety of suggestions made by local stakeholders to improve the situation in the field of educational and vocational training in Zavkhan aimag.
Ensure qualified teaching staff

To prevent migration of qualified teaching staff from Zavkhan to the Central Region and attract teachers to Zavkhan, it is necessary to create incentives to stay and work in the region. As a first step, wages in both regions should be brought into line. Due to the fact that wages are paid by the schools themselves, teaching staff in Zavkhan currently earn less than half of what their colleagues earn in Ulaanbaatar. Educational and vocational training institutions should therefore be assisted in the hunt for additional sources of income. Evening courses open to anyone interested in topics related to regional economic development are one example. Nevertheless, we appeal to the government to support advanced training institutions financially. Offering teachers scholarships to study abroad and obtain a master’s degree is another possibility; teachers would subsequently return to Zavkhan and pass on their knowledge or otherwise pay back their scholarship. In addition, an exchange programme for teachers and trainers from colleges, universities, and vocational schools (e.g., through the German Development Service or the German Academic Exchange Service) should be introduced.

More practical education and training

Supporting measures should focus on practice-oriented education and particularly consider the needs of local economic entities. Therefore, it is also necessary to enhance co-operation between the economic and educational sectors to create a balance between local supply and demand in relation to employment. For a more practice-oriented education, especially in the Uliastay Vocational and Production School, teachers should have the opportunity to take part in advanced training courses. Moreover, the programme should assist in reinforcing co-operation between the two aimags Zavkhan and Khovd, since Khovd already hosts some technically-based educational institutions.

Support the development of Uliastay as an educational centre

We support the idea of local stakeholders that Uliastay become a centre for education in the Western Region, where different branches of the Mongolian University and other academies are to be represented. A first step could be a distance-learning centre (e.g., in co-operation with appropriate universities and other educational centres located in Ulaanbaatar) The necessary equipment should be provided. The centre could also train computer skills and improve the access to information via Internet.
Support educational institutions to finance materials and equipment

The programme should help to provide teaching materials and equipment such as computers and Internet access. For the improvement particularly of vocational training, teaching facilities as well as both new and modern technologies are necessary. The programme, therefore, should take other projects and international organizations (such as InWEnt) into account and help to arrange contacts.

Promote the development and realization of local curricula

To a certain extent, it is important to let educational and vocational training institutions to decide on their own curricula. Curricula should represent local interests in accordance with local needs. If educational and vocational training institutions come up with subjects and topics that would encourage the economic development of Zavkhan, the programme should assist in their implementation.
Assessment of the current situation in Darkhan-Uul and Selenge and suggestions for improvement

The northern pilot region offers more diversified, qualified, and appropriate educational opportunities than Zavkhan aimag. Both entrepreneurs and students benefit from a relatively large number of economic entities and educational institutions in Darkhan-Uul. Nevertheless, the above-mentioned support measures for Zavkhan could in some cases also apply to Darkhan-Uul and Selenge aimag, since the advanced educational institutions visited face similar financial problems as a result of privatization. This needs to be investigated further.

From our point of view, educational institutions in Darkhan-Uul and Selenge aimag already represent important stakeholders for the economic development of the region. They co-operate with economic entities and contribute with relevant research to regional economic development. To reinforce their role, we propose:

- The programme should promote and strengthen co-operation between educational institutions and economic entities to the benefit of both stakeholder groups.
• **Meetings with scientists, herders, entrepreneurs, public officials, and others**, where educational institutions can introduce their scientific findings (e.g., on environmental degradation) to the latest discussions, **should continue to be supported and extended to other topics**.

### 2.7 Support entrepreneurial activities and extension of value chains

**Assessment of the current situation**

Economic entities develop in a favourable business environment and where there is a market demand for their products. In general, the latter holds true for the two pilot regions. Many entrepreneurs are aware of possible sources of income, unmet customer demands, opportunities to extend value chains, and to expand their business and create jobs.

Local and supra-regional markets in Mongolia have not yet been inundated with the raw and processed materials or products (e.g., milk, wild berries, vegetable salads, construction materials) discussed in this study. Some of the products currently imported could be produced in the regions, thus introducing opportunities for import substitution. However, it should be considered that the saturation of Mongolian markets is only a matter of time, due to low population figures and purchasing power. Thus, production for local and national markets has growth potential for the regional economies of Zavkhan and Darkhan / Selenge-Uul, but for a limited time only.

The situation is quite different when it comes to raw materials and products for the global market. They could face steady buyers and a growing demand in the future, if the products supplied have a high standard. In particular, natural and ecologically sound materials and products (e.g., wool, honey, pharmaceuticals) could encounter increasing demand by environmentally conscious European and Asian consumers. Nevertheless, experts should verify the market situation before implementing future programmes.

For a number of reasons, the programme intends to focus entrepreneurial support on SME. Consequently, the following conclusions and recommendations concentrate on the sectors and branches that include small and medium enterprises with a large potential for employment creation.

In Zavkhan, regional core products are meat, wool, hair, hides, and milk. The development potential of this sector lies in processing quality raw materials and their side products. If herders, economic entities, and public administration were to co-operate, the region would, in a first step, at least be in a po-
sition to handle the primary processing of animal products. Harvesting and processing of vegetables, berries, and (medical) herbs are an additional option to create income and employment. Finally, there is a limited potential for (international) tourism in the region, provided the latter’s uniqueness is conveyed through co-operation and marketing.

The main economic sectors in the central pilot region are agriculture and the processing of wheat and animal products. The cultivation of vegetables, fodder, and potatoes, and the collection of non-wood forest products provide the population with a further major source of income and could be intensified. The industrial sector in Darkhan is comparatively advanced, processing raw materials (such as wheat, meat, milk, hides, ore), and producing construction materials and food products. Relatively good natural and infrastructural conditions call for the extension of facilities to process field crops, vegetables, berries, and animal raw materials.

Apart from these core products and lines of business, the natural and human resource endowment of the pilot regions offers potential for niche products on the domestic and international markets:

- due to the largely untouched environment, high-quality organic products (honey, berry jam, etc.) could find environmentally conscious buyers both at home and on the Chinese and European markets;
- rare medical herbs (e.g., "Five Branches“, "Rankh“) or marmot oil could find a ready market, as in the case of other typical Mongolian products that are hard to copy elsewhere (e.g., in China), such as mare and camel milk, “red“ garlic, and traditional artisan products (e.g., felt products, handmade leather boots, bows and arrows, furniture, etc.);
- provided the unique landscape and environment is carefully preserved, international tourism could become an integral part of future economic development.

At present, exploitation of the current potential is subject to a number of constraints that should be addressed by the programme:

**Improve framework conditions for entrepreneurs**

Many potential entrepreneurs cannot set up or expand their business due to bureaucratic barriers, inappropriate credit conditions, and lack of information. We therefore recommend **improving access to (market) information and credit, increasing the availability of appropriate technology and (further)
education, and lowering administrative hurdles. This should create a business environment where value chains are extended, jobs created, and (supplier) start-ups begin to mushroom.

Increase the quality of raw materials
Improved quality of raw materials, e.g., in terms of fineness of wool and hair, size of hides and absence of flaws and holes, milk and meat hygiene, or adhesive content of wheat, play a decisive role in the successful operation of processing facilities and gaining of a higher (export) market share. Moreover, matched quality (taste, etc.) combined with lower consumer prices are mandatory if local products are to become a substitute for imports, gain a market share in the region, and be placed in the supermarket shelves of Mongolia’s urban centres. Therefore, we recommend that herders and farmers receive support and training to increase motivation and enable them to produce high-quality raw materials. Training topics for herders should include pre-selection of wool and hair, appropriate techniques for skinning and salting hides, quality animal breeding, etc. Support measures for farmers should, for instance, ensure the availability of quality wheat and vegetable seeds.

Market regions and products
People in other regions and abroad are not sufficiently aware of the unique characteristics and products of the pilot regions. Moreover, local products are not diversified and lack the appropriate packaging and labelling. In order to attract investors and visitors, and to improve the competitiveness of regions and their products, the programme should assist local actors in marketing the characteristics of the aimags and the uniqueness of its people and products through (product) fairs, exhibitions, certification of wool and cashmere, etc. Support of improved access to packaging materials, labels, and the introduction of diversified product lines (taste, size, etc.) will open new markets, strengthen SMEs and create jobs. New recipes for vegetable salads, different types of bread, yoghurt, pastries, and noodles, etc. will produce an improved response to increasingly diversified customer demands.

Improve know-how
Local people and entrepreneurs still have a knowledge of traditional processing techniques, collection systems or packaging methods but lack familiarity with modern equipment, recycling or storage possibilities. We advise the appreciation of current (traditional) knowledge of processing techniques, but also call for re-qualification measures to enable producers to handle
new and more suitable equipment. Furthermore, processing companies should be supported in choosing suitable locations (infrastructure, market access to raw materials), in developing reliable and efficient collection systems, in selecting adequate packaging systems, in procuring appropriate technologies, and in developing refined products of (superior) quality.

Strengthen self-organization and co-operation

Many producers have difficulty in procuring processing equipment individually or in gaining direct access to markets. Therefore, we recommend that the programme assists small entrepreneurs, vegetable farmers, herders, etc. to collect, process, and sell their goods in groups or collectives. They should be enabled to jointly obtain the required machines and processing facilities, and to improve direct access to (supra-regional) markets, thus selling their raw materials or products at higher prices by avoiding so-called ‘change agents’ or being dependent on one wholesale trader. We support the idea of establishing a co-operative market in Ulaanbaatar, where co-operatives and their members can sell their products directly to the customers.

Mitigate seasonal constraints

Employees in local production or processing plants are frequently employed seasonally, leaving them with an unstable income, while at the same time entrepreneurs are not utilizing processing facilities to maximum capacity. We thus propose that the programme should support methods to expand plant cultivation and extend the time span for processing material. Sufficient storage capacity in combination with effective collection systems can ensure
almost year-round processing of wool, hair, hides, and vegetables. Quality vegetable seeds, irrigation, and greenhouses can extend the cultivation period considerably, while intensified animal husbandry combined with adapted breeds could secure a more consistent delivery of milk and meat to processing facilities. The operating capacity of wool-washing facilities and of hide and milk-processing plants could be used more effectively, giving employees a more stable income and not just wages on a seasonal basis.

Use abandoned infrastructure

The derelict buildings and facilities observed in both pilot regions are currently unused and in a state of neglect. We propose giving priority to the use, rehabilitation, and expansion of previous infrastructures such as old processing facilities, wells, and irrigation systems before putting up new structures. Moreover unused buildings and processing sites should be refurnished and used by start-ups or small entrepreneurs who lack office and production space, electricity, and water and heating systems.

Largely abandoned wood-processing factory in Tossontsengel (Zavkhan aimag)
Ensure sustainable exploitation of natural resources

Desertification as a result of overgrazed pastures and the clearing of forests by fires and sawmills, as well as the destruction and pollution of the environment from mining and other industrial activities are factors that hamper sustainable economic development in the pilot regions. Therefore, the programme should play an active role in promoting environmentally sound production and processing, focusing on sustainable exploitation of natural resources in both regions. Along with support of reforestation initiatives, the programme should enforce pasture management systems in endangered locations and support measures to reduce the wind erosion of fertile soil (especially in Selenge). In addition, keeping to the hunting season and the law should be vigorously demanded to ensure the survival of wild animals like the marmot, which is currently being hunted out of season to a huge extent.

Support a diversified regional economy

In view of the dynamic economic and political environment of Mongolia and its harsh climate, no specific sector or line of business should be treated preferentially. Supporting a diversified economic structure in the pilot regions seems more beneficial and less risky in the long run. Entrepreneurs with new, unique ideas (e.g., grinding bones for sale as fertilizer, processing sawdust to chipboards, etc.) should be supported to the same extent as enterprises that plan to process standard raw materials, such as meat or hides. It is crucial that sectors and products prove their competitiveness on the domestic and global markets without excessive technical and financial support, tax exemptions, or subsidies.

Improve and refine current products

Since people are aware of the potential of the region and its limitations, since (traditional) raw material sources are available and processing know-how exists, and since (abandoned) processing facilities could be utilized, the programme should not focus on or try to identify completely new value chains. Instead, improvements in the quality of existing raw materials and products, and their refinement, should be prioritized.
3 Conclusions and recommendations with regard to the methodological approach of the programme

3.1 Ensure participation in diagnostic, planning, implementation, and evaluation of local projects

Assessment of the current situation

Both pilot regions showed great interest in the programme, which was expressed by officials and local people alike, and almost everyone we met was open and co-operative. We found many active people with a tremendous will and ability to develop the regional economy (well-known ‘local champions’ in Zavkhan, Darkhan-Uul, and Selenge are listed in annex 5).

Another favourable precondition for the programme is the envisaged Regional Council and its advisory board, which should play a prominent role in the planning and implementation of regional economic development measures. The advisory board is expected to fulfil important tasks such as the drafting of annual operation plans and budget allocations, the co-ordination of programme activities in the regions, and the monitoring and reporting of regional programme progress to the programme advisory board at national level in Ulaanbaatar. Therefore it is essential that members of the advisory board are chosen carefully, in keeping with certain conditions that will be discussed later.

In our opinion the preconditions mentioned above are an important basis for participatory planning of the programme and its implementation. We recommend a participatory method of proceeding, which will be outlined in the following:

Provide current information on the programme

In order to reach as many people as possible from the very beginning, the programme should produce widespread information on programme activities and the opportunities to be drawn from them, for example via the local media, through bag, soum and aimag parliaments, etc. It should be categorically clear what the programme can and cannot do.

Participatory diagnostic of local economies

Additional research should be carried out in both pilot regions to verify the available findings and put them on a broader basis. This is particularly necessary for areas that members of the study team - and other consultants - were
unable to visit: the Southern, Western, and Northern parts of Zavkhan, and the Western and Eastern parts of Selenge. The **diagnostic of local economies should be carried out along participatory lines**, involving local and regional stakeholders from rural and urban parts of the region and from the **bag**, **soum** and **aimag** levels.

Diagnostic should be facilitated by local teams composed of motivated and experienced actors of varying backgrounds (entrepreneurs, civil society, association representatives, administrative officials, etc.), some of whom are listed in annex 5. The **teams should be gender-balanced and the members should be equipped with the relevant knowledge on regional economic development concepts via training, in order to fulfil the demanding task of facilitating in participatory processes**. Although their work will be largely voluntary and depend to a great extent on personal commitment, team members should be appropriately compensated.

In our opinion, the methods used for this study worked well and can be recommended for further diagnostic: workshops and individual and group interviews, supplemented by appropriate data collecting instruments such as questionnaires, mapping, diagramming, and the analysis of secondary sources.

**Participatory planning of local projects**

The **planning of concrete projects for the promotion of the local and regional economy should be participative**, involving small and medium entrepreneurs, co-operative members, representatives of associations, educational institutions, financial service institutions, administration, business development services, and other non-governmental organizations. It is important to first of all **prioritize initiatives and projects that are easy to implement and show rapid results**. This will increase the motivation of the actors involved to continue working together for common objectives once the first diagnostic and planning round has been completed.

In principle, **each local actor - or group of actors - should have the opportunity of writing project proposals or business plans** to be decided on by the advisory board according to specific transparent criteria. If necessary, teams should give advice and assist in formulating proposals and planning projects.
Participatory decision-making on project support

Authority for decision-making on project support should lie with the Regional Council and its advisory board - provided its members are chosen according to the following criteria:

The **board should be comprised of a small number of members**. They should be chosen carefully and include experienced and motivated ‘local champions’ from all relevant stakeholder groups and parts of the region. GTZ should see to it that all of these groups are proportionally represented on the board.

Work on the advisory board should be voluntary. However, since the work will be time-consuming and carried out conscientiously, members should be granted an **expense allowance**. In the case of entrepreneurs or other self-employed, this should include substitution for loss of earnings. Additionally, other non-cash benefits could be given, such as certificates for specific qualifications, study trips, etc. These measures should guarantee that all target groups are represented in the council, and not merely administrative staff or other public servants.

**Members of the advisory board should receive high-quality training** that provides them with basic knowledge about promoting the regional economy and the programme concept, and prepares them for multiple tasks, for instance selecting the economic entities and projects to be supported.

If, for some reason, **members of the advisory board do not represent all target groups in a balanced way** or one of the above-mentioned conditions referring to the advisory board has not been met, the **programme should introduce its own board**, composed of local actors and people in charge of fulfilling the multiple tasks of the programme.

Programme support could consist of special training, consultation, or material assistance in the form of cash or non-cash values. In our opinion, **material support should as a rule not come in the form of subsidies but as reasonable loans or should include contributions from beneficiaries**, for example cash, labour, and non-cash values (land, machines or buildings).

Criteria for the approval of projects to be supported should be defined participatively at the beginning of the programme, and involve programme representatives and the relevant local actors. Based on interview and workshop
results, we believe the following criteria should be applied for the approval of projects:

- creation of reasonably paid jobs, for both men and women;
- environmental sustainability (reforestation, pasture management, etc.);
- opportunities for product marketing;
- extension of value chains;
- sufficient capacities to implement the project;
- use of appropriate technology;
- a sound business plan.

We endorse the idea of focusing programme support on small and medium enterprises because they can be expected to develop more employment-generating potential than larger companies.

Special attention and support should be given to innovative ideas, products, and services, and to projects based on co-operation with different actors that would benefit a large group of people. An example of the latter could be the merging of large and small trading companies and co-operatives from Uliastay for a national tender for a wholesale network. Yet another could be co-operation of several neighbouring soums for the reforestation of a large area.

Support of activities that need a certain level of transport, energy or communication infrastructure should be concentrated in aimag or soum centres. This applies, for example, to wool-washing plants or hide-processing facilities. Other activities, such as the extension of veterinary services or vegetable cultivation for private consumption, should receive support region-wide, especially in the remote areas, to create income opportunities for people living far from aimag or soum centres.

Participatory implementation and evaluation of projects

Once approved, projects should be implemented quickly, where required with the support of government, business development service providers, civil society organizations, and donors etc. We recommend facilitating the (self-) evaluation of activities in order to learn from successes and failures in planning and implementing local initiatives. It would be of advantage if the teams that facilitated diagnostic and planning were also to assist in these evaluations.
3.2 Seek synergies with other projects and schemes

If the programme cannot give support to certain promising ideas or activities, the advisory board should suggest other donors or organizations that might be in a position to do so. The German Bank for Reconstruction (KfW) and the Asian Development Bank (ADB), for example, both implement regional development programmes in Mongolia, supporting bank finance institutions and the construction of energy plants and transport infrastructure, to name but a few. In addition, a number of international governmental organizations, such as Peace Corps and USAID or the Swiss Agency for Development and Co-operation (SADC), and NGOs, such as the Australian ADRA (Adventist Development Relief Agency), the Norwegian Agency for Development Co-operation (NORAD) or World Vision, are active in the regions.

As planned, the programme should co-operate closely with current GTZ-supported projects “Co-operation in the Field of International Trade Policy / WTO”, “SME Promotion” and “Organized Self-Help in Rural Areas”. In supporting environmental protection or restoration initiatives, strong programme co-operation is recommended with the current GTZ-supported projects “Sustainable Forestry”, “Nature Protection and Buffer Zone Management”, “Combat of Desertification” and “Promotion of Renewable Energies”.

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ANNEX

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### Annex 1: Timing of the survey

<table>
<thead>
<tr>
<th>Week</th>
<th>Survey phases</th>
<th>Main activities</th>
</tr>
</thead>
</table>
| 25 - 33| Preparation            | **Berlin:**  
- Elaboration of the study concept  
**Ulaanbaatar:**  
- Presentation of the study concept of the SLE team and discussion with the GTZ Mongolia and Mongolian Partners  
- Finalization of interview and workshop guidelines  
- Pre-tests and interviews with resource persons  
- Detailed planning of the field survey |
| 34 - 39| Field survey           | **Zavkhan and Darkhan-Uul / Selenge aimag** (in each of the pilot regions the team spent three weeks):  
- Kick-off workshops with local stakeholders  
- Data collection in the aimag centres and the surrounding soums and bags  
- Final discussions of results with local stakeholders |
| 34 - 44| Analysis               | **Zavkhan, Darkhan-Uul / Selenge and Ulaanbaatar:**  
- Data analysis, team discussions and documentation of results  
- Additional interviews with resource persons in Ulaanbaatar  
- 22\(^{\text{nd}}\) of September: submission of draft report to the GTZ appraisal team  
- 25/26\(^{\text{th}}\) of September: workshop with GTZ appraisal team |
| 40 - 47| Presentation and documentation | **Ulaanbaatar:**  
- Report writing  
- Final presentation of results and discussion with the GTZ Mongolia and other relevant actors  
**Berlin:**  
- 11\(^{\text{th}}\) of November: public presentation of results  
- Report writing and editing |
Annex 2: Economically relevant figures about Mongolia

Exchange rates (MNT / USD)

<table>
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<th></th>
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<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>End of period</td>
<td>473.62</td>
<td>902.00</td>
<td>1072.37</td>
<td>1097.00</td>
<td>1102.00</td>
<td>1125.00</td>
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<tr>
<td>Average of period</td>
<td>448.61</td>
<td>840.83</td>
<td>1021.87</td>
<td>1076.67</td>
<td>1097.70</td>
<td>1110.31</td>
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</tbody>
</table>

Price index (annual change, in %)

<table>
<thead>
<tr>
<th>Index</th>
<th>1995</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
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</thead>
<tbody>
<tr>
<td>Consumer price index</td>
<td>56.8</td>
<td>9.4</td>
<td>7.5</td>
<td>-49.6</td>
<td>8.2</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Gross domestic product by economic sectors
(in million MNT at constant 1995 prices, % change year on year in brackets)

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<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>By industrial origin (total)</td>
<td>550,254</td>
<td>606,410</td>
<td>625,910</td>
<td>632,717</td>
<td>638,930</td>
<td>664,253</td>
</tr>
<tr>
<td>Agriculture</td>
<td>209,146</td>
<td>242,248</td>
<td>252,443</td>
<td>214,843</td>
<td>175,021</td>
<td>156,629</td>
</tr>
<tr>
<td>Mining</td>
<td>66,024</td>
<td>77,632</td>
<td>80,115</td>
<td>85,422</td>
<td>93,596</td>
<td>87,217</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>66,378</td>
<td>50,230</td>
<td>48,825</td>
<td>47,212</td>
<td>62,243</td>
<td>76,029</td>
</tr>
<tr>
<td>Electricity, gas and water</td>
<td>9,665</td>
<td>10,082</td>
<td>10,544</td>
<td>10,588</td>
<td>10,956</td>
<td>11,393</td>
</tr>
<tr>
<td>Construction</td>
<td>9,237</td>
<td>9,125</td>
<td>9,268</td>
<td>7,916</td>
<td>8,773</td>
<td>9,750</td>
</tr>
<tr>
<td>Trade</td>
<td>93,566</td>
<td>106,458</td>
<td>107,807</td>
<td>135,920</td>
<td>149,208</td>
<td>167,560</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>35,074</td>
<td>44,319</td>
<td>47,030</td>
<td>58,876</td>
<td>67,626</td>
<td>79,211</td>
</tr>
<tr>
<td>Finance</td>
<td>1,233</td>
<td>-201</td>
<td>1,329</td>
<td>196</td>
<td>-84</td>
<td>2,434</td>
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<tr>
<td>Public administration</td>
<td>16,651</td>
<td>17,948</td>
<td>18,217</td>
<td>18,863</td>
<td>17,787</td>
<td>18,766</td>
</tr>
<tr>
<td>Others</td>
<td>43,281</td>
<td>48,570</td>
<td>50,333</td>
<td>52,686</td>
<td>53,686</td>
<td>55,264</td>
</tr>
</tbody>
</table>
Main trading partners (in million MNT)

<table>
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<tr>
<th></th>
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<th></th>
<th></th>
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<th></th>
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</thead>
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<tr>
<td>Exports, total</td>
<td>339.4</td>
<td>316.9</td>
<td>340.3</td>
<td>409.9</td>
<td>454.8</td>
<td>479.6</td>
</tr>
<tr>
<td>China, PR</td>
<td>91.5</td>
<td>95.3</td>
<td>176.6</td>
<td>192.8</td>
<td>217.7</td>
<td>227.2</td>
</tr>
<tr>
<td>USA</td>
<td>23.0</td>
<td>25.6</td>
<td>61.6</td>
<td>110.3</td>
<td>138.6</td>
<td>156.0</td>
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<td>Switzerland</td>
<td>0.1</td>
<td>68.0</td>
<td>1.1</td>
<td>0.5</td>
<td>0.2</td>
<td>0.2</td>
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<tr>
<td>Russia</td>
<td>36.7</td>
<td>38.0</td>
<td>40.7</td>
<td>36.7</td>
<td>31.9</td>
<td>41.4</td>
</tr>
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<td>Korea (ROK)</td>
<td>8.7</td>
<td>30.8</td>
<td>4.4</td>
<td>1.9</td>
<td>2.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Japan</td>
<td>82.1</td>
<td>12.2</td>
<td>11.8</td>
<td>8.7</td>
<td>9.7</td>
<td>7.4</td>
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<td>Italy</td>
<td>17.3</td>
<td>9.0</td>
<td>14.4</td>
<td>18.1</td>
<td>15.2</td>
<td>10.2</td>
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<td>UK</td>
<td>2.8</td>
<td>12.2</td>
<td>7.0</td>
<td>12.1</td>
<td>11.7</td>
<td>4.8</td>
</tr>
<tr>
<td>Germany</td>
<td>6.4</td>
<td>2.0</td>
<td>5.4</td>
<td>3.9</td>
<td>1.9</td>
<td>1.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.4</td>
<td>3.5</td>
<td>2.4</td>
<td>2.4</td>
<td>3.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Imports, total</td>
<td>540.3</td>
<td>472.4</td>
<td>440.5</td>
<td>588.2</td>
<td>661.0</td>
<td>769.2</td>
</tr>
<tr>
<td>Russia</td>
<td>217.1</td>
<td>144.6</td>
<td>124.2</td>
<td>200.7</td>
<td>232.4</td>
<td>258.3</td>
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<td>China, PR</td>
<td>69.3</td>
<td>63.0</td>
<td>75.7</td>
<td>121.6</td>
<td>135.1</td>
<td>151.7</td>
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<tr>
<td>Korea (ROK)</td>
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<td>35.5</td>
<td>43.6</td>
<td>60.1</td>
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<td>91.4</td>
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<tr>
<td>Japan</td>
<td>46.7</td>
<td>55.2</td>
<td>63.1</td>
<td>31.4</td>
<td>41.0</td>
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<tr>
<td>Germany</td>
<td>52.0</td>
<td>24.0</td>
<td>30.2</td>
<td>32.5</td>
<td>33.5</td>
<td>27.7</td>
</tr>
<tr>
<td>USA</td>
<td>15.3</td>
<td>32.6</td>
<td>7.9</td>
<td>18.7</td>
<td>13.3</td>
<td>72.8</td>
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<tr>
<td>Singapore</td>
<td>16.3</td>
<td>16.4</td>
<td>12.1</td>
<td>13.4</td>
<td>13.0</td>
<td>13.4</td>
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<td>France</td>
<td>4.2</td>
<td>20.8</td>
<td>4.0</td>
<td>10.1</td>
<td>8.3</td>
<td>6.6</td>
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<tr>
<td>Italy</td>
<td>9.9</td>
<td>3.3</td>
<td>4.5</td>
<td>2.2</td>
<td>5.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>11.0</td>
<td>0.0</td>
<td>11.2</td>
<td>14.1</td>
<td>15.6</td>
<td>16.8</td>
</tr>
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</table>

Balance of payment (in % of GDP)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Exports</td>
<td>39.3</td>
<td>47.6</td>
<td>50.2</td>
<td>56.6</td>
<td>51.5</td>
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<tr>
<td>Imports</td>
<td>-40.8</td>
<td>-59.9</td>
<td>-62.6</td>
<td>-71.4</td>
<td>-68.2</td>
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<tr>
<td>Trade balance</td>
<td>-1.5</td>
<td>-12.4</td>
<td>-12.5</td>
<td>-14.8</td>
<td>-16.7</td>
<td>(n.a.)</td>
</tr>
</tbody>
</table>
### Exports (in million MNT)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Animal and animal products</td>
<td>10.41</td>
<td>18.79</td>
<td>21.86</td>
<td>23.10</td>
<td>26.37</td>
<td>28.86</td>
</tr>
<tr>
<td>Vegetable products</td>
<td>4.94</td>
<td>0.37</td>
<td>0.07</td>
<td>0.23</td>
<td>1.09</td>
<td>2.75</td>
</tr>
<tr>
<td>Animal or vegetable fats</td>
<td>0.04</td>
<td>0.03</td>
<td>0.00</td>
<td>0.05</td>
<td>0.02</td>
<td>0.03</td>
</tr>
<tr>
<td>Prepared foodstuff</td>
<td>2.54</td>
<td>2.84</td>
<td>2.55</td>
<td>1.14</td>
<td>0.33</td>
<td>0.38</td>
</tr>
<tr>
<td>Mineral products</td>
<td>309.98</td>
<td>156.29</td>
<td>146.84</td>
<td>188.56</td>
<td>175.21</td>
<td>173.37</td>
</tr>
<tr>
<td>Chemical products</td>
<td>1.54</td>
<td>0.13</td>
<td>0.46</td>
<td>0.11</td>
<td>2.94</td>
<td>0.12</td>
</tr>
<tr>
<td>Plastics and rubbers</td>
<td>0.10</td>
<td>0.24</td>
<td>0.14</td>
<td>1.50</td>
<td>0.05</td>
<td>0.10</td>
</tr>
<tr>
<td>Hides and Skins</td>
<td>23.73</td>
<td>27.59</td>
<td>30.05</td>
<td>42.19</td>
<td>59.08</td>
<td>46.10</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>4.86</td>
<td>34.58</td>
<td>5.51</td>
<td>0.88</td>
<td>0.21</td>
<td>0.21</td>
</tr>
<tr>
<td>Wood pulp products</td>
<td>0.19</td>
<td>0.16</td>
<td>0.06</td>
<td>0.13</td>
<td>0.06</td>
<td>0.17</td>
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<tr>
<td>Textiles and textile articles</td>
<td>80.73</td>
<td>77.87</td>
<td>127.38</td>
<td>192.28</td>
<td>171.50</td>
<td>145.14</td>
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<tr>
<td>Footwear, headgear</td>
<td>0.22</td>
<td>0.14</td>
<td>0.16</td>
<td>0.06</td>
<td>0.04</td>
<td>0.06</td>
</tr>
<tr>
<td>Articles of stone, plaster, cement, asbestos</td>
<td>0.45</td>
<td>0.04</td>
<td>0.05</td>
<td>1.22</td>
<td>0.18</td>
<td>0.02</td>
</tr>
<tr>
<td>Pearls, (semi-) precious stones, metals</td>
<td>0.00</td>
<td>6.54</td>
<td>99.01</td>
<td>75.79</td>
<td>75.43</td>
<td>119.33</td>
</tr>
<tr>
<td>Base metals and articles thereof</td>
<td>17.07</td>
<td>11.00</td>
<td>8.27</td>
<td>6.05</td>
<td>5.11</td>
<td>4.33</td>
</tr>
<tr>
<td>Machinery, appliances, electrical equipment</td>
<td>1.52</td>
<td>5.75</td>
<td>6.81</td>
<td>1.48</td>
<td>1.94</td>
<td>1.67</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>13.37</td>
<td>2.26</td>
<td>3.68</td>
<td>0.28</td>
<td>1.57</td>
<td>0.69</td>
</tr>
<tr>
<td>Instruments - measuring, musical</td>
<td>0.39</td>
<td>0.38</td>
<td>0.52</td>
<td>0.58</td>
<td>0.06</td>
<td>0.13</td>
</tr>
<tr>
<td>Miscellaneous manufactured articles</td>
<td>1.17</td>
<td>0.12</td>
<td>0.77</td>
<td>0.20</td>
<td>0.19</td>
<td>0.48</td>
</tr>
<tr>
<td>Works of Art</td>
<td>-</td>
<td>0.01</td>
<td>0.02</td>
<td>0.02</td>
<td>0.12</td>
<td>0.02</td>
</tr>
</tbody>
</table>
## Imports (in million MNT)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Animal and animal products</td>
<td>1.31</td>
<td>1.38</td>
<td>1.11</td>
<td>2.09</td>
<td>4.99</td>
<td>5.26</td>
</tr>
<tr>
<td>Vegetable products</td>
<td>15.20</td>
<td>26.75</td>
<td>17.99</td>
<td>46.41</td>
<td>51.18</td>
<td>58.28</td>
</tr>
<tr>
<td>Animal or vegetable fats</td>
<td>2.48</td>
<td>6.12</td>
<td>5.61</td>
<td>6.14</td>
<td>6.73</td>
<td>9.36</td>
</tr>
<tr>
<td>Prepared foodstuff</td>
<td>18.57</td>
<td>46.62</td>
<td>36.12</td>
<td>47.22</td>
<td>53.22</td>
<td>56.60</td>
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<tr>
<td>Mineral products</td>
<td>83.00</td>
<td>91.27</td>
<td>85.22</td>
<td>120.27</td>
<td>145.40</td>
<td>132.72</td>
</tr>
<tr>
<td>Chemical products</td>
<td>36.70</td>
<td>29.41</td>
<td>20.17</td>
<td>28.06</td>
<td>33.88</td>
<td>34.51</td>
</tr>
<tr>
<td>Plastics and rubbers</td>
<td>6.51</td>
<td>10.32</td>
<td>12.61</td>
<td>13.35</td>
<td>15.09</td>
<td>19.06</td>
</tr>
<tr>
<td>Hides and Skins</td>
<td>1.32</td>
<td>0.18</td>
<td>0.43</td>
<td>0.17</td>
<td>0.70</td>
<td>0.50</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>1.14</td>
<td>1.83</td>
<td>0.94</td>
<td>1.72</td>
<td>2.17</td>
<td>3.24</td>
</tr>
<tr>
<td>Wood pulp products</td>
<td>11.89</td>
<td>7.67</td>
<td>6.16</td>
<td>8.74</td>
<td>10.50</td>
<td>14.94</td>
</tr>
<tr>
<td>Textiles and textile articles</td>
<td>28.41</td>
<td>31.48</td>
<td>46.23</td>
<td>79.86</td>
<td>63.22</td>
<td>84.18</td>
</tr>
<tr>
<td>Footwear, headgear</td>
<td>8.23</td>
<td>2.30</td>
<td>1.20</td>
<td>1.80</td>
<td>2.29</td>
<td>1.92</td>
</tr>
<tr>
<td>Articles of stone, plaster, cement, asbestos</td>
<td>5.51</td>
<td>4.98</td>
<td>4.43</td>
<td>5.46</td>
<td>9.80</td>
<td>10.90</td>
</tr>
<tr>
<td>Pearls, (semi-) precious stones, metals</td>
<td>0.07</td>
<td>0.01</td>
<td>0.02</td>
<td>0.23</td>
<td>0.04</td>
<td>0.08</td>
</tr>
<tr>
<td>Base metals and articles thereof</td>
<td>34.75</td>
<td>28.21</td>
<td>19.29</td>
<td>22.69</td>
<td>29.72</td>
<td>31.37</td>
</tr>
<tr>
<td>Machinery, appliances, electrical equipment</td>
<td>85.01</td>
<td>127.05</td>
<td>176.69</td>
<td>133.30</td>
<td>113.37</td>
<td>134.42</td>
</tr>
<tr>
<td>Transportation equipment</td>
<td>63.15</td>
<td>67.82</td>
<td>54.39</td>
<td>67.05</td>
<td>69.11</td>
<td>75.55</td>
</tr>
<tr>
<td>Instruments - measuring, musical</td>
<td>5.99</td>
<td>11.63</td>
<td>17.19</td>
<td>21.05</td>
<td>17.42</td>
<td>8.96</td>
</tr>
<tr>
<td>Miscellaneous manufactured articles</td>
<td>5.70</td>
<td>7.56</td>
<td>6.79</td>
<td>8.54</td>
<td>8.21</td>
<td>8.89</td>
</tr>
<tr>
<td>Works of Art</td>
<td>-</td>
<td>0.72</td>
<td>0.19</td>
<td>0.35</td>
<td>0.09</td>
<td>0.06</td>
</tr>
</tbody>
</table>
Annex 3: Results of analyses of service providers in Darkhan and Zavkhan

Table 5: Strengths and weaknesses of the CCI Darkhan-Uul as perceived by the staff

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Good relation of the National Chamber of Commerce and Industry in Ulaanbaatar with the government as well as between the CCI Darkhan-Uul and the House of Governor</td>
<td>- Bad technical equipment, for instance computer, scanner and camera</td>
</tr>
<tr>
<td>- Conciliation board</td>
<td>- Lack of financing</td>
</tr>
<tr>
<td>- Good reputation in public (mainly due to the experiences of the headquarter in Ulaanbaatar)</td>
<td>- Missing modes of transportation</td>
</tr>
<tr>
<td>- Confidence of the companies in the organization due to good consultancy, information and established contacts</td>
<td>- Being understaffed and overloaded with work</td>
</tr>
<tr>
<td>- Constant contact to companies</td>
<td>- Little number of experienced staff members</td>
</tr>
<tr>
<td>- Qualified staff members</td>
<td>- Badly managed staff</td>
</tr>
<tr>
<td>- Organization of different measures for the support of economic entities (trade fairs as one example)</td>
<td></td>
</tr>
<tr>
<td>- Training</td>
<td></td>
</tr>
</tbody>
</table>

From the point of view of the staff members, the most outstanding strengths are a good reputation in the public, good relations to the House of Governor and the existing conciliation board. The existence of the conciliation board as well as the possibility to issue documents of origin for products are seen as unique services offered only by the CCI in Darkhan-Uul.

In comparison to other branch offices in Mongolia, the CCI Darkhan sees itself as the leading branch in the two services. Furthermore, all participants of the workshop agreed on the fact that the organization of trade fairs and exhibitions for economic entities are becoming a more and more important task for the chamber.

On the other hand, the bad technical equipment available in the branch was unanimously mentioned as the main weakness, followed closely by the lack of financing which, from the point of view of the staff members, is decisive for the quality of technical equipment of the branch. During the discussion it was
also mentioned that the lack of experienced staff members and a badly managed staff were important issues to point out. The reason for this is seen in the fact that the present team has only recently started to work together. Statements about the quality of the services supplied have not been made. All participants perceived internal weaknesses as something strongly influenced from outside. Solutions to overcome weaknesses have been pointed out in the analysis of potential and risks for the organization.

Table 6: Potential and risks for the CCI Darkhan-Uul as perceived by the staff members

<table>
<thead>
<tr>
<th>Potential</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Good conditions for infrastructure: there are a lot of companies in Darkhan</td>
<td>- „Irresponsibility“ of the leading staff from economic entities: they tend to be bureaucratic, for instance when people visit them and have to bear long waiting</td>
</tr>
<tr>
<td>- Establishment of a business-information centre in order to make business information and product information available</td>
<td>- Membership fees will not be paid on time</td>
</tr>
<tr>
<td>- Rise in income through more members (and membership fees), through chargeable training services, new types of services an provision of information</td>
<td>- The value of training is not sufficiently appreciated</td>
</tr>
<tr>
<td>- Development and promotion of foreign relations</td>
<td>- Services to promote the CCI are expensive (such as TV-promotion)</td>
</tr>
<tr>
<td>- Development of networking (clubs and meeting points for businessmen to exchange information)</td>
<td>- Members and participants of training are rather passive</td>
</tr>
<tr>
<td>- Expansion of service supply</td>
<td>- Lack of consciousness among economic entities for the value of the chamber in Darkhan (the response of the entrepreneurs to a planned business festival organized by the chamber was “Why is that necessary?”)</td>
</tr>
<tr>
<td>- The increase in the number of members</td>
<td>- A lot of information by foreign guests (which can be passed on to economic entities and at the same time being one reason why representatives of economic entities from nearby soums consult the chamber in Darkhan)</td>
</tr>
<tr>
<td>- A lot of information by foreign guests</td>
<td>- Services to promote the CCI are expensive (such as TV-promotion)</td>
</tr>
</tbody>
</table>

The staff members see the main potential in the rise in income and number of members through the establishment of a business information centre. They consider measures important in order to minimize the mentioned weaknesses and risks. The set-up of the information centre already has started: Extending
beyond Darkhan, a database with different economically relevant information for the entire central region should be created. From their viewpoint, there is a lot of bureaucracy within the management department of economic entities, which makes it difficult for the CCI to work efficiently. In addition to that, the staff member claim that a lot of entrepreneurs seem not to understand the necessity of investments in the ‘intellectual potential’ because they either do not appreciate enough the offered training services or not at all take advantage of them. Moreover, very few would want to pay for services like training.

The CCI Darkhan-Uul perceives the rising number of economic entities in the aimag as a chance. An increasing degree of fame of the chamber should help to gain more members and raise the income of the organization.

The participants suggested that services provided in future should respond better to the wishes of clients. Apart from that, conciliation proceedings should be accelerated. Overall, the participants think that economic entities need to understand and appreciate more the work of the CCI. Also, the aspect of strengthening international co-operation will become more crucial in the future work of the CCI.

Finally, the president of the chamber stressed that they will at first try to minimize internal weaknesses through own initiatives like making intensive use of existing strengths within the organization. Nevertheless, he pointed out that the organization would need external help in order to buy new technical devices, which finally might help to minimize the mentioned risks. To become involved in the planned GTZ programme is one of the big hopes of the organization.
Table 7: Strengths, weaknesses, chances and risks of the Darkhan-Uul employers’ federation as perceived by its vice president

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Very direct and trustful co-operation with employers who sense that federation represents the interests of the economic entities</td>
<td>- There are no separate rooms to work in, no access to internet and there is no computer available</td>
</tr>
<tr>
<td>- Close contact with local authorities, because the members have to pay taxes and the federation reminds them to fulfil their duty</td>
<td>- Activities depend on the season (in summer time the majority of staff is on vacation when at the same time most of the research and visits by representatives of foreign organizations happen)</td>
</tr>
<tr>
<td>- Permanent evaluation and ranking of economic entities, which gives them the opportunity to find out how well they do their business; the existing confidence between the association and its members helps to support this procedure; different economic entities appreciate this possibility and take it very seriously.</td>
<td>- Almost no cooperation between the branch in Darkhan and foreign branches (this is due to the fact that no access to internet exists and because the work in the federation is voluntary)</td>
</tr>
<tr>
<td>- Bargaining power towards the trade union (in comparison to single economic entities)</td>
<td>- The MONEF has qualified staff, the training measures are good and the co-operation between the MONEF and foreign organizations works well</td>
</tr>
<tr>
<td>- The MONEF has qualified staff, the training measures are good and the co-operation between the MONEF and foreign organizations works well</td>
<td>- The vice president stated: none (for instance in terms of political framework conditions he said: „No matter which government is in power, economic entities can continue to work“)</td>
</tr>
</tbody>
</table>

Chances: Increasing number of economic entities of different branches that want to start business. They are aware of the existence of the federation, which sees this as a chance to get more members involved.

- The existence of a representative in all 21 aimags which provides opportunities to exchange information.

- Governmental organizations are interested to cooperate (they show more interest in working with the federation than with the trade union); this provides an opportunity to have greater impact on regulations and laws concerning labour and tax and to have a say in different business-related areas like SME promotion.

- The MONEF plans to have more branches in the
### Table 8: Types of business credit offered by Khas Bank and Khaan Bank branches in Zavkhan

<table>
<thead>
<tr>
<th>Loan type</th>
<th>Khas Bank</th>
<th>Khaan Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting loan</td>
<td>Distinction between use for production, service, trade; applicants must prove that they have been on business before</td>
<td>-</td>
</tr>
<tr>
<td>Current asset loan</td>
<td>Credit period below 1 year for small traders; over 1 year for wholesalers (both for the purchase of goods) and large enterprises (for the purchase of current assets)</td>
<td>Loans to traders for the purchase of goods / raw materials; applicants must contribute 50-60% of the needed capital; also loans to herders for the extension of herds</td>
</tr>
<tr>
<td>Growth loan</td>
<td>For the extension of plants, repairs, etc.; applicants must prove that they have been economically successful</td>
<td>-</td>
</tr>
<tr>
<td>SME loan</td>
<td>E.g. for opening of a new branch; applicants must prove many securities and year-long experience, and have to have very good reasons for the realization of their business idea</td>
<td>For the extension of facilities and plants, refurbishments; no specific conditions to fulfil</td>
</tr>
<tr>
<td>Agriculture loan</td>
<td>ADB loans for animal breeding (purchase of new animals) and vegetable cultivation (seeds, warehouses, irrigation facilities, etc.)</td>
<td>For vegetable cultivation; loan to be paid back either in summer (after harvest) or in winter (after sale of stored vegetables)</td>
</tr>
<tr>
<td>Foreign currency (USD) credit</td>
<td>E.g. for foreign trade with Russia; applications are sent to head offices in Ulaanbaatar for approval</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Verbal and written statements of clerks in charge of credit
Table 9: Services and clients of surveyed BDS providers in Zavkhan

<table>
<thead>
<tr>
<th>Service</th>
<th>BDS provider</th>
<th>Production cooperative association</th>
<th>Chamber of Commerce and Industry</th>
<th>Employers Federation</th>
<th>Public administration*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Awareness creation and motivation</td>
<td>members</td>
<td>interested citizens and organizations</td>
<td>members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management training</td>
<td></td>
<td>managers / directors</td>
<td>members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical training</td>
<td>members</td>
<td></td>
<td>members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Counselling</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Legal advice</td>
<td>members</td>
<td>executive personnel</td>
<td>members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax advice</td>
<td>members</td>
<td></td>
<td>members</td>
<td></td>
<td>all citizens (TO)</td>
</tr>
<tr>
<td>Advice on competitiveness</td>
<td>members</td>
<td></td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start-up counselling</td>
<td>members</td>
<td></td>
<td>members</td>
<td></td>
<td>unemployed, school leavers (LO)</td>
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<tr>
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<td>Advice on further training</td>
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## Training

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## Lobbying and Documentation

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* Key: LO - Labour Office; SP - Department of Strategic Planning and Policy Coordination; TO - Tax Office

Source: Verbal and written statements of representatives of the organizations
Annex 4: Educational and vocational training institutes

Further information on the Vocational School of Agriculture “MUST” in Shamaar

**Levels of education at the school:**

The school has two levels of education. At first, students complete the 9th and 10th grade while learning a profession (e.g. motor mechanics, agrotechnic, wild berries and vegetable cultivator). After completion students get a certificate. At the second level students study agriculture and animal husbandry. The entire process of wheat cultivation can be learned on an area of 200 hectares. Students complete the second level with a diploma.

**Graduates:**

There are 80 to 120 graduates annually; 60% of the students get a certificate, 40% a diploma. Only ten percent of the students are from Shamaar soum, while the majority of the students come from other parts of the aimag or from other places in Mongolia. The majority of the graduates stay in Selenge aimag and return home to work with their parents or look for employment in economic entities. The director stated that the number of students is increasing.

**Finances:**

The first level of the vocational school is free of charge. According to law, students have to pay 160,000 MNT for the second level. Poorer students pay half the fee.

**Regulations concerning the syllabus:**

Students can propose new ideas for the content of the syllabus. At the beginning of 2003, “growing of wild berries” was introduced due to a suggestion made by students. At first, the teaching staff discussed the suggestion, and then sent the proposal to the ministry, which finally gave the permission.

Further information on the School of Technology in Darkhan

**Practical education:**

The courses and seminars contain a theoretical as well as a practical part. In addition, once a year students have to do a 30-day internship in an economic entity of their choice. Since this is well known in the region, it sometimes happens that representatives of economic entities come and ask the school for certain students and also offer them to work there when finished school.

**Foreign languages taught at the school:**
Students also have to take language courses at school. At the moment, English and Russian courses are offered. After three semesters students should be able to attend subjects in foreign languages. The school's library contains over 20,000 volumes of books and over 20 kinds of international reputable magazines in English and Russian.

Co-operation with other (including foreign) universities / colleges:

Every now and then, professors from other Mongolian universities and from abroad come to conduct lectures. Besides, the school has an exchange programme for students and professors with foreign universities and colleges in Germany, Russia and the United States. More students would like to study abroad but living expenses are high and the school can only pay the costs for travelling.

Graduates:

About three quarters of students easily find a job after graduation. 25% leave Darkhan and seek job opportunities in the region where they come from, the remaining 75% stay in Darkhan and the surrounding area. According to the director, graduates of building construction, building material and mechanical technology have the best chances to find a job.

Finances:

At present, the school's only earnings are the tuition fees, which amount to 150 USD per student. They get no additional support from the aimag. Although the school offers training courses for people from outside, the demand is very low.

Additional information on the University of Agriculture and in particular about the Plant Science Agricultural Research Training Institute (PSARTI) in Darkhan

The mission of PSARTI is to create a science and training environment where specialists can learn ecologically trended agriculture and competition in the market economy. The institute is the central part of the university with around 1,200 students and 100 staff members. Around 20 have scientific titles. The students can specialize in more than 14 subject areas. Agronomy, fruit and vegetable agronomy and agro-farming technology are completed with a bachelor's and/or a master's degree. Agricultural engineering, soil science, ecology and environmental protection and ecological management finish with a bachelor's degree. Additionally, the university offers evening schools for agronomists and ecologists and training for working people.
According to the director, the research of PSARTI focuses on “the introduction of new, superior crop varieties and the development of progressive technology for crop cultivation, soil fertility recovery and plant protection.” Besides this, the university researches on the preservation of genetic diversity of Mongolian plants. The Mongolian Centre for Diversity of Seeds is storing more than 20,000 seeds of 60 plants. Genetic selection and cultivation with biotechnological means is used for wheat and potatoes. Germans have built a laboratory for this research.

The university co-operates within the country with the Academy of Science and the Academy of Agricultural Science, and abroad with scientist from the University of Tokyo and from a Canadian university. Last year scientist of the University of Agriculture Darkhan met with scientists from Kyrgyzstan, Kazakhstan and Russia, countries that have, according to the director of the school, similar environmental problems.
Annex 5: List of persons met

(Places and persons in alphabetical order; identified ‘local champions’ in shaded cells)

<table>
<thead>
<tr>
<th>Name</th>
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<th>Contact</th>
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<tr>
<td>Davaadorj, N.</td>
<td>Officer</td>
<td>Soum administration</td>
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<tr>
<td>Davaakhuu, S.</td>
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<td>Bayangol Soum Government</td>
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<tr>
<td>Erdenechimeg, S.</td>
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<tr>
<td>Bräter, Ulrike</td>
<td>Staff member</td>
<td>Business Development Co-operation (BAO)</td>
<td><a href="mailto:bao@berlin.ihk.de">bao@berlin.ihk.de</a></td>
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<tr>
<td>Gomm, Anja</td>
<td>Collaborator</td>
<td>GTZ, OE 41, Sector Project WiRAM</td>
<td><a href="mailto:anja.gomm@gtz.de">anja.gomm@gtz.de</a></td>
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<tr>
<td>Rass, Nicola</td>
<td>Student</td>
<td>Free University Berlin</td>
<td>0173-9969161 /m/</td>
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<tr>
<td><strong>Darkhan, Darkhan-Uul Aimag, Mongolia</strong></td>
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<tr>
<td>Amarsaikhan, B.</td>
<td>Board member</td>
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<tr>
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<tr>
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<tr>
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<tr>
<td>BATSAIKHAN, N.</td>
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<td>DASHDAAVA, J.</td>
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<td>DAVAAKHUU, Ts.</td>
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<td>DAVAATSEREN, Ts.</td>
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<td>World Vision</td>
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<td>OTGONDZARGAL, R.</td>
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<td>Council for the Promotion of Family Income in the Aimag</td>
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<tr>
<td>OULZIMAA, T.</td>
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<td>Production Co-operative Association</td>
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<tr>
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<td>“Darkhan mah-expo” Ltd. (leather processing)</td>
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<td>OYUNTCHEMEE, T.</td>
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<tr>
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<td>SAIKHSANA, N.</td>
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<tr>
<td>SAINKHUDU, D.</td>
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<tr>
<td>SARRANTSETSEG, Ts.</td>
<td>Manager</td>
<td>„Kiwi“ Ltd. (hotel)</td>
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<td>SENDENKHOROL, I.</td>
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<tr>
<td>SUNDUI, Ch.</td>
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<tr>
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<td>TSENDSUREN, Ch.</td>
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<td>Department of Finance and Economy</td>
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<tr>
<td>TSEEGEMID, T.</td>
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<td>“Darkhan chuns” JSC (food production)</td>
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<tr>
<td>TSEEL, S.</td>
<td>Director</td>
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### Eschborn, Germany

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<tr>
<td>HANNIG, Wolfgang</td>
<td>Head</td>
<td>GTZ Focal Point Economic Reform and Build-up of Market Economy</td>
<td><a href="mailto:wolfgang.hannig@gtz.de">wolfgang.hannig@gtz.de</a></td>
</tr>
<tr>
<td>HUTTER, Angelika</td>
<td>Expert planner</td>
<td>GTZ, OE 42, Regionalization, Dezentralization, Communal Autonomy</td>
<td><a href="mailto:angelika.hutter@gtz.de">angelika.hutter@gtz.de</a></td>
</tr>
<tr>
<td>SUR, Emmi</td>
<td>Head</td>
<td>GTZ, RG 205, East Asia and Pacific Region</td>
<td><a href="mailto:emmi.sur@gtz.de">emmi.sur@gtz.de</a></td>
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### Khongor, Darkhan-Uul Aimag, Mongolia

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<tbody>
<tr>
<td>BATBOLD, B.</td>
<td>Owner</td>
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<tr>
<td>BALT, Kh.</td>
<td>Chairman</td>
<td>Citizens Delegate Assembly</td>
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<tr>
<td>BUMSAN, Kh.</td>
<td>Farmer</td>
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### Orkhon, Darkhan-Uul Aimag, Mongolia

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## Otgon, Zavkhan Aimag, Mongolia

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## Sharya, Selenge Aimag, Mongolia

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<td>BATBOLD, T.</td>
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## Sharyn-Gol, Darkhan-Uul Aimag, Mongolia

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<tr>
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<td>Citizens Delegate Assembly</td>
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<td>DASHBAL, M.</td>
<td>Manager</td>
<td>“EDE” Ltd. (brickworks)</td>
<td>01374-26510 (Post office)</td>
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<td>MUKHTAR, G.</td>
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## Sukhbaatar, Selenge Aimag, Mongolia

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<td>Chamber of Commerce and Industry</td>
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<td>ANNANYOOM, M.</td>
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<td>BAIGALMAA, M.</td>
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<td>BURENJARGAL, D.</td>
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<td>Department of Strategic Planning and Policy Coordination</td>
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<td>GANGAA, S.</td>
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Telmen, Zavkhan Aimag, Mongolia

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<td>Telmen Soum Government</td>
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<tr>
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### Tossontsengel, Zavkhan Aimag, Mongolia

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<td>AMARSAIKHAN, J.</td>
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<tr>
<td>BALDANSAMKUU, R.</td>
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<td>GANSAKH, Kh.</td>
<td>Chief engineer</td>
<td>“Tessin-gol” Ltd. branch (meat processing)</td>
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<td>LUDWIG, Holger</td>
<td>Project Coordinator</td>
<td>GTZ “Renewable Energy” Project</td>
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<td>LUNDAANJANZAN, L.</td>
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<td>TOVSHINTOR, J.</td>
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<td>Accountant</td>
<td>“Tessin-gol” Ltd. branch (wool washing)</td>
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<td>Trade Union</td>
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<td>GTZ “Organized Self-Help in Rural Areas” Project</td>
<td><a href="mailto:a.amgalan@gtz-mongolia.org">a.amgalan@gtz-mongolia.org</a></td>
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<tr>
<td>BAIGALMAA, S.</td>
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<td>Mongolian Co-operative Training and Information Centre</td>
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<td>BARKMANN, Udo B.</td>
<td>Visiting Professor</td>
<td>National University of Mongolia, Centre for Mongol Studies</td>
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<td>Light Industry Science, Technology and Manufacturing “Armono” Corporation</td>
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<td>Expert</td>
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<td>Tumursukh, T.</td>
<td>Head of Administration</td>
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<td>Weber, Christoph</td>
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<td>GTZ “Cashmere Goat” Project”, Kyrgyzstan</td>
<td>0170-4774843 /m/; <a href="mailto:cacosigtz@ktnet.kg">cacosigtz@ktnet.kg</a></td>
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Uliaistay, Zavkhan Aimag, Mongolia

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<td>01462-21321 /o/</td>
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<td>Khaan Bank</td>
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Uliastay, Zavkhan Aimag, Mongolia (continued)
### Yaroo, Zavkhan Aimag, Mongolia

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### Zuunkharaa, Selenge Aimag, Mongolia

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<td>Christian Berg, Kirsten Bredenbeck, Anke Schürmann, Julia Stanzick, Christiane Vaneker</td>
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<td>Jochen Currle, Bernardine Dixon Carlos, Maike Potthast, Rita Reinhardt, Stefan Schukat, Anna Steinschen</td>
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